INTERFOR

INTERFOR PACIFIC

2006

Annual Statutory Information

Includes:

- Message to Shareholders
- Management Discussion and Analysis Dated February 8, 2007
- Consolidated Financial Statements
- Annual Information Form Dated February 8, 2007

International Forest Products Limited

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International Forest Products Limited

HIGHLIGHTS

	2006	2005	2004
		(in millions of dollars, except share and per share amounts)	
Financial Summary			
Sales	824.4	842.6	843.9
EBITDA (note 1)	188.0	116.3	109.5
Net earnings	95.5	19.7	24.7
Per Share Data			
Net earnings per common share			
- basic	1.97	0.41	0.51
- diluted	1.95	0.40	0.50
Price range per share			
$ High	8.11	7.94	8.65
$ Low	5.91	6.12	5.44
Book value per share	9.93	7.94	7.66
Cash Flow per share before working capital change	2.94	1.01	1.38
Weighted average shares outstanding (millions)	48.5	48.7	48.4
Financial Position			
Total assets	675.1	599.6	567.4
Total debt	41.4	103.1	74.2
Total shareholders' equity	478.0	386.5	372.7
Invested capital	519.4	489.6	446.9
Financial Ratios (%)			
Return on average shareholders' equity	22.1%	5.2 %	6.9 %
Return on average invested capital	19.4%	4.8 %	6.6 %
Net debt as a % of invested capital (note 2)	(29.1%)	7.1%	13.0 %

Notes:

1. See the definition of EBITDA under the heading Review of Operating results on page 9.
2. The Company had cash, net of debt, of $107.8 million as at December 31, 2006; at December 31, 2005, net debt (excluding an advance from Seaboard) was 29.7 million.

"Our program to monetize non-core and non-performing assets and to upgrade our core facilities continued and gained momentum as the year progressed. As did our program to restructure the way some of our activities are conducted. Equally important, significant progress was made in 2006 on our goal to improve safety results throughout the Company."

"While there is still work to be done, Interfor is a more focused and streamlined company than it was one year ago."

Message to Shareholders - February 2007

For further highlights, please see Message to Shareholders on the next page.

International Forest Products Limited

MESSAGE TO SHAREHOLDERS

OVERVIEW

Interfor made significant progress in 2006. Our program to monetize non-core and non-performing assets and to upgrade our core facilities continued and gained momentum as the year progressed. As did our program to restructure the way some of our activities are conducted. Equally important, significant progress was made in 2006 on our goal to improve safety results throughout the Company.

From a business and financial standpoint, the most important event of the year was the settlement of the softwood lumber dispute between Canada and the U.S. The agreement – which came into effect in October – creates greater certainty for producers on both sides of the border and resulted in the return of more than 80% of the duty deposits paid by Canadian producers since 2002.

Overall, the highlights of 2006 included:

- Recorded net earnings of $95.5 million or $1.97 per share
- Generated $42.0 million in cash (after-tax) from the sale of non-core and non-performing assets
- Invested $55.1 million in discretionary capital projects
- Completed the restructuring of our Coastal Woodlands operations
- Re-purchased 691,700 Class A shares
- Reduced lost time accidents by 33% and serious injuries by 44%; incurred no fatalities
- Commenced Board succession plan
- Appointed Sandy Fulton as Chief Operating Officer
- Ended the year with net cash balances of $108 million

While there is still work to be done, Interfor is a more focused and streamlined company than it was one year ago.

We invite you to review the material covered in the next few pages and in the detailed material contained later in this report, and to form your own views on the progress we have made. It is our hope that you will share our excitement about the future of the Company.

FINANCIAL RESULTS BUOYED BY TRADE SETTLEMENT AND OTHER INCOME

Interfor generated net earnings in 2006 of $95.5 million or $1.97 per share compared to $19.7 million or $0.41 per share in 2005. Of this amount, $72.2 million or $1.49 per share was attributable to the refund of duty deposits and applicable interest and another $8.8 million or $0.18 per share was attributable to the gains associated with the sale of non-core and non-performing assets, net of restructuring costs.

From an operating standpoint, 2006 was very different than 2005. The downturn in housing activity in the U.S. in mid year had a material impact on commodity product prices, with the benchmark SPF 2X4 falling from US$350 per mfbm early in the year to US$230-$240 per mfbm in the early part of the 4th quarter. The drop in product prices had a significant and negative effect on the financial performance of our U.S. and Interior operations in 2006. The impact was accentuated by the relative strength of log prices – particularly in the Pacific Northwest – which were supported by increased buying by pulp and paper operations which benefited from a strong market for those products. At the same time, our Canadian operations were negatively impacted by further increases in the value of the Canadian dollar which moved up over US$0.90 in mid year before settling back to $0.85 - $0.86 by year-end.

Helping to offset the impact of lower commodity prices and the stronger CAD was the relative strength of prices in the specialty and offshore markets, and the impact of our restructuring efforts which reduced costs and the negative drag associated with certain non-performing or curtailed operations.

Overall, EBITDA (calculated to exclude other income and duty refunds) declined by only 5% from $74.7 million in 2005 to $70.9 million in 2006. Our EBITDA margin (as measured against sales revenue) declined from 8.9% in 2005 to 8.6% in 2006.

MONETIZATION PROGRAM GENERATES $42.0 MILLION

Our program to monetize non-core and non-performing assets gained momentum in 2006, resulting in the sale of the MacKenzie sawmill in Surrey, B.C., B.W. Creative Wood Industries, our helicopter logging operation (Helifor), as well as surplus properties, logging equipment and manufacturing assets.

After accounting for severance costs and tax, the net proceeds from this activity amounted to $42.0 million.

In addition to streamlining the Company's operations, the monetization program has freed investment capital for redeployment into more productive assets and operations.

DISCRETIONARY INVESTMENT PROGRAM TOPS $55 MILLION IN 2006; TOTAL SPENDING EXCEEDS $90 MILLION

In our view, constant reinvestment and the use of state-of-the-art technology are two of the keys to success in the lumber and building products industry.

During 2006, major projects were completed or nearing completion at a number of our operations. At Gilchrist, new kilns were installed to improve drying times and quality, and a new automated grade reader was installed in the planer. At Molalla, the log yard was significantly upgraded, two new kilns were installed and a new planer complex was built. At Port Angeles, a new primary breakdown line is being installed. And, at Adams Lake, a wood-fired energy system and site improvements top the list of discretionary investments at that facility.

It is important to note that the benefits of most of this investment activity have not yet been realized. The Molalla planer was commissioned in August and reached pro forma in December, while the Port Angeles and Adams Lake projects are scheduled for completion in early 2007. Once these projects have reached pro forma, we expect they will make a significant difference in the cost structure and profitability of these operations.

In total, capital spending amounted to $90.6 million in 2006, compared to $73.9 million in 2005.

A capital budget of $78 million has been approved by our Board of Directors for 2007, including $19.2 million carried over from 2006, and $24.9 million for new discretionary projects. The 2007 discretionary budget does not include a specific allocation for the next stage of the Adams Lake "Master Plan" which is in the final stages of development and will be dealt with separately once the plan has been finalized. Similarly, the budget includes only minor amounts for the Queensboro and Hammond mills pending final decisions on the "Master Plans" for those operations.

RESTRUCTURING OF COASTAL WOODLANDS EFFECTIVELY COMPLETE

Significant progress was made in our efforts to restructure our Coastal Woodlands operation in 2006.

As mentioned above, our helicopter logging operation (Helifor) was sold to a new company formed by Columbia Helicopters Inc. and the former senior managers of Helifor. Although the transaction was

announced early in the year, it was only completed in December due to delays in gaining the necessary regulatory approvals.

More significant, however were the agreements reached in early March which saw Intefor's traditional company logging operations transferred to independent contractors. These agreements were structured in a way that will help create economic-sized logging operations and should result in longer operating seasons, lower costs, and ultimately, greater stability of employment for those affected.

In our case, the restructuring will enable Interfor to focus increasingly on our role as a "lumber" company.

SHARE BUY-BACK PROGRAM RECOGNIZES VALUE

In November 2005, Interfor received approval from the Toronto Stock Exchange (TSX) to buy-back up to 2,384,000 Class A shares. A total of 604,500 shares were repurchased under the program in 2006 at a cost of $4.1 million.

In November 2006, Interfor applied to the TSX for approval to renew the program, with the authority to acquire up to 2,366,000 Class A shares. Following approval of the program on November 6th, the Company re-purchased a total of 87,200 shares at a cost of $0.6 million.

In our view, Interfor's shares are currently undervalued. A buy-back program is an attractive investment opportunity and is consistent with our goal to create long-term value for our shareholders.

SAFETY PERFORMANCE IMPROVES; FOCUS AND COMMITMENT STILL REQUIRED

Following a horrendous year in 2005, Interfor renewed its focus on delivering improved safety performance in 2006. And, while good progress was made, everyone in the Company understands that focus and commitment to our core safety values will be required if we expect to achieve our goal of eliminating serious injuries and fatalities in the workplace.

While statistics do not tell the whole story, we can report that Interfor achieved a 33% reduction in lost time accidents and a 44% reduction in serious injuries in 2006. Gladly, there were no fatalities at Interfor operations in 2006.

These improvements were the direct result of effort and hard work by staff and workers throughout the Company. Of particular note, we would like to single out the groups at Molalla, Adams Lake and Coastal Woodlands who achieved excellent results and jointly received the President's Award for Safety Achievement in 2006.

BALANCE SHEET IN GREAT SHAPE

Interfor's balance sheet continues to be one of the strongest in the sector. At year-end, the Company had a net cash balance of $108 million and a net debt to invested capital ratio of (29%) compared to 7% at the end of 2005. Even after the payment of the special charge associated with the duty refund ($24 million) and income taxes which are due in the 1st quarter ($28 million), the Company will remain in a strong cash position.

The strength of our balance sheet is an important strategic asset. It provides protection against market uncertainty and the ability to proceed with initiatives to enhance the long-term value of the Company at an attractive time in the market cycle.

BOARD SUCCESSION UNDERWAY

Following the retirements of directors Joe Segal and Rich McKerracher in April 2006, Intefor's Board of Directors launched a process to identify potential new candidates to serve as directors of the Company.

Around the same time, current directors, John Milroy, Claude Laval and Bob Kadlec indicated their plans to retire from the Board in 2007.

The succession process was conducted by the Company's Corporate Governance Committee under the Chairmanship of Shaun Sullivan, who has been a director since 2001. The Committee retained a professional search firm to assist in the process, and worked closely with the Chairman, Vice-Chairman and CEO. With the assistance of the search firm, a set of criteria for potential new directors was laid out, following which the search firm identified a long list of potential candidates. This list was reduced to a short list in discussions with the Committee. Interviews were then conducted with the preferred candidates.

In October, Eddie McMillan and Peter Lynch were appointed to the Board and, in February 2007, Gord MacDougall was appointed.

Eddie McMillan is a private businessman and consultant, based in Perdido Key, Florida. He spent his entire working career with Willamette Industries Inc., most recently as Executive Vice-President, Wood Products Group, where he had direct responsibility for all of Willamette's timberlands and wood products production, sales and capital projects activity.

Peter Lynch, of Toronto, Ontario, currently serves as Executive Vice-President of Grant Forest Products Inc., a privately-owned manufacturer of OSB with operations in Canada and the United States. Prior to joining Grant in 1993, Mr. Lynch practiced law with the firm of Field, Turner, Dunn & Lynch.

Gord MacDougall, of West Vancouver, B.C., was a founding partner of Connor, Clark and Lunn Investment Management Ltd. and currently serves as a Vice President and Director of that firm. He has served on the Boards of a number of publicly-traded companies and was, until recently, the Lead Director of Intrawest Corp.

Each of the new directors has given their consent to stand for election at the Company's Annual General Meeting in April.

We are also delighted to tell you that Doug Whitehead, President and CEO of Finning International Inc. has given his consent to stand for election as a director in April. Doug is well-known in the forest products industry and in the investment community, having served previously as the President and CEO of Fletcher Challenge Canada Ltd. and as the Chairman of TimberWest Forest Corp.

In our view, the additions of Eddie, Peter, Gord and Doug to Interfor's Board of Directors is a positive and exciting move and will help to ensure the best possible representation for the Company's shareholders in the years ahead. We are looking for the new directors to bring high standards and fresh ideas to our Board discussions.

At the same time, we will miss the guidance and counsel provided so ably by John Milroy, Claude Laval, and Bob Kadlec, and before them, by Joe Segal and Rich McKerracher. Each of these directors has made a significant contribution to Interfor and we would not be in the position of strength we are today without their assistance.

SANDY FULTON APPOINTED CHIEF OPERATING OFFICER

In February 2007, the Board of Directors appointed Sandy Fulton to the position of Chief Operating Officer. Sandy joined Interfor in September 2004 as Senior Vice President, U.S. Operations following the purchase of the Crown Pacific assets in Washington and Oregon. In 2005, Sandy's responsibilities were extended to include the Adams Lake and Queensboro operations along with the balance of the Company's North American

structural products marketing activities. In 2006, Sandy assumed responsibility for all of the Company's manufacturing and marketing efforts, including cedar and offshore activities.

Sandy is an experienced senior executive having served as Executive Vice-President, Operations of Crown Pacific Inc. and as President and CEO of Pacific Forest Products Limited.

His appointment as COO recognizes his strong contribution to the Company's progress in the last two and a half years, and sets the stage for further growth in the years ahead.

SHORT TERM OUTLOOK IS CHALLENGING; GOAL IS CLEAR

The downturn in U.S. housing activity which became apparent in the 2nd half of 2006 is expected to continue in 2007. As a result, we expect continued pressure on product prices and profitability in the short-term.

And, while we find the short-term situation to be somewhat disconcerting, we prefer to view it as an attractive opportunity to build value for the long-term.

We have a clear strategy to achieve this goal and the drive and discipline to achieve it.

We made significant progress in 2006. We intend to do the same in 2007.

Thank you for your continued support.

William L. Sauder	Duncan K. Davies
Chairman	President & C.E.O.

INTERFOR

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of February 8, 2007

This Management Discussion and Analysis ("MD&A") provides a review of the Company's financial performance for 2006 relative to 2005, its financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and its Consolidated Financial Statements for the years ended December 31, 2006 and 2005, filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of property, plant, equipment and timber ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds, net and Other income. The Company discloses EBITDA measures as they are used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

FORWARD LOOKING STATEMENTS

This report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein (see "Risks and Uncertainties" below).

REVIEW OF OPERATING RESULTS

General Overview

Interfor recorded net earnings of $95.5 million or $1.97 per share (diluted $1.95 per share) for the year ended December 31, 2006, compared to net earnings of $19.7 million or $0.41 per share (diluted $0.40 per share) for the year ended December 31, 2005. EBITDA for the year ended December 31, 2006 was $188.0 million, compared to $116.3 million in 2005. Adjusted EBITDA for the year ended December 31, 2006 was $70.9 million, compared to $74.7 million in 2005.

The major development impacting the Company in 2006 was the resolution of the long-running Canada-U.S. softwood lumber dispute, which culminated in the implementation of the Canada-U.S. Softwood Lumber Agreement ("SLA") on October 12, 2006. The Company received total refunds of countervailing and antidumping duties and related interest of US$118.9 million, before the deduction of a special charge of 18.06% of this amount payable to the Canadian federal government (see "Canada-U.S. Softwood Lumber Agreement" for more details). The net duty refund and interest positively impacted 2006 operating earnings, net earnings, and net earnings per share respectively, by $96.9 million, $72.2 million, and $1.49 per share.

Aside from the U.S. duty refunds, the Company's earnings in 2006 were significantly impacted by a sharp decline in building activity in the U.S. in the second half of the year. In October 2006, year-over-year U.S. housing starts dropped 11.1% to a six-year low, and the Random Lengths Framing Lumber Composite Price ("RLFLC") in November 2006, fell to its lowest level (U.S. $275 per thousand board feet) in four years. The Canadian dollar strengthened against the U.S. dollar through the majority of 2006, compounding the impact of weaker U.S. average prices on Canadian dollar sales realizations for lumber sales to the U.S. market.

Lumber shipments in 2006 reflected increased production and sales from the Company's Adams Lake and Queensboro sawmills, as well as a full year of operations at the Molalla mill (acquired May 31, 2005); however,

these increases were largely offset by reduced operating rates in the latter part of the year, related to the challenging U.S. structural lumber markets, as well as log pricing issues.

Market conditions for cedar products remained strong through 2006, while prices in Japan showed a modest gain, reflecting the improving health of the Japanese economy. The Company also realized higher prices for its sales of residual wood chips and logs, and continued to improve its cost structure, mostly from various initiatives undertaken in 2006 and recent years.

Significant progress was made in 2006 on monetizing non-core assets that were viewed as either not being capable of generating acceptable returns or not fitting into the Company's long-term strategy. Proceeds of $49.2 million and a pre-tax gain of $21.4 million were realized from various dispositions through the year (see "Monetization of Non-Core and Non-Performing Assets" for more details).

The Company generated cash flow from operations, after accounting for changes in working capital, of $186.0 million for the year ended December 31, 2006, compared to $72.5 million for 2005, with the U.S. duty refunds and related interest accounting for substantially all of the improvement. In 2006, the Company invested in several strategic capital projects that included a new planer at its Molalla mill, a new primary log breakdown line at its Port Angeles mill (completed in January 2007) and a new hog fuel fired energy system at Adams Lake (scheduled for completion by March 2007). Capital expenditures for the year totaled $90.6 million (2005 - $77.1 million).

In January 2006, the Company repaid two loans totaling $54.4 million from the Seaboard Limited Partnership ("Seaboard Partnership") by way of set-off against income distributions made in 2006. The Company repurchased 691,700 common shares valued at $4.7 million under Normal Course Issuer Bids ("NCIB") (2005 – 39,100 shares at $0.3 million) (see "Normal Course Issuer Bids" for more details) in 2006.

At December 31, 2006, the Company had cash, net of debt, of $107.8 million, compared to net debt (total debt, net of cash) of $29.7 million at December 31, 2005 (the net debt amounts for 2005 exclude short term advances from the Seaboard Partnership that were repaid in January 2006). At the 2006 year end, the Company had unused available lines of credit of approximately $67.4 million.

Selected Annual Financial Information

	2006	2005	2004	2003	2002
	(millions of dollars except share and per share amounts)				
Sales –Lumber	625.6	661.5	633.9	486.4	621.4
–Logs[2]	103.2	105.1	137.0	92.2	139.1
–Wood chips and other by-products	41.9	34.1	38.3	28.5	31.1
–Other	53.7	41.9	34.7	33.9	24.7
Total Sales	824.4	842.6	843.9	641.0	816.3
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	14.4	10.2	23.8	(42.4)	61.6
Operating earnings (loss)	103.7	(31.5)	(2.2)	(45.6)	59.1
Net earnings (loss)	95.5	19.7	24.7	(22.7)	39.6
Net earnings (loss) per share – basic	1.97	0.41	0.51	(0.58)	1.10
Net earnings (loss) per share – diluted	1.95	0.40	0.50	(0.58)	1.10
EBITDA[4]	188.0	116.3	109.5	4.6	120.7
Cash flow from operations per share[1]	2.94	1.01	1.38	(0.12)	3.01
Shares outstanding – end of period (millions)[3]	48.1	48.7	48.6	48.4	35.5
– weighted average (millions)	48.5	48.7	48.4	39.5	35.9
Adjusted EBITDA[4]	70.9	74.7	88.0	1.3	119.3

1 Cash generated from operations before taking account of changes in operating working capital.
2 Log sales revenue includes a reclassification of B.C. interior log sales previously credited to production costs.
3 As at February 8, 2007 the number of shares outstanding by class are: Class A Subordinate Voting shares – 47,024,796 Class B Common shares – 1,015,779, Total – 48,040,575.

4 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds, net and other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2006	2005	2004	2003	2002
	(millions of dollars)				
Net earnings (loss)	$95.5	$19.7	$24.7	$(22.7)	$39.6
Add: Income taxes (recovery)	42.2	(7.2)	0.4	(15.7)	21.3
Interest expense	3.4	4.7	3.2	3.7	3.6
Interest income on U.S. duty refunds, net of special charge	(12.7)	-	-	-	-
Depletion and amortization	52.0	57.5	55.2	36.1	53.7
Restructuring costs, asset write-downs and other	7.6	41.7	26.0	3.2	2.5
EBITDA	$188.0	$116.3	$109.5	$4.6	$120.7
Deduct:					
U.S. duty refunds, net	96.9	-	-	-	-
Other Income	20.2	41.6	21.5	3.3	1.4
Adjusted EBITDA	$70.9	$74.7	$88.0	$1.3	$119.3

Volume and Price Statistics

		2006	2005	2004	2003	2002
Lumber sales	(million fbm)	1,172	1,161	894	632	760
Lumber production[1]	(million fbm)	1,165	1,143	901	637	772
Log sales[2]	(thousand cubic metres)	1,190	1,360	1,636	1,142	1,395
Log production[2]	(thousand cubic metres)	2,381	2,558	2,964	1,965	2,911
Average selling price – lumber[3]	($/thousand fbm)	$534	$570	$709	$770	$818
Average selling price – logs[2]	($/cubic metre)	$86	$76	$84	$81	$100
Average selling price – pulp chips	($/thousand fbm)	$33	$26	$37	$37	$33

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs
2 B.C. operations
3 Gross sales before duties and export taxes

Canada – U.S. Softwood Lumber Agreement

On April 27, 2006 the federal governments of Canada and the United States reached a framework SLA to resolve the softwood lumber dispute. On October 12, 2006 the terms of the SLA were implemented and the U.S. Department of Commerce ("USDOC") revoked the antidumping and countervailing duty orders effective May 22, 2002 without the possibility of reinstatement. In addition, the USDOC instructed U.S. Customs and Border Protection ("CBP") to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The refund monies, and the associated interest up to October 12, were subject to a special charge of 18.06% payable to the Canadian government.

The SLA has a term of seven years and provides for an extension of two years and for early termination by either government after two years. Canadian softwood lumber exporters will pay an export charge when the price of lumber is at or below US$355 per thousand board feet, as determined by the RLFLC. The Province of British Columbia ("B.C.") has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). This choice is made separately for the B.C. Coast and B.C. Interior regions. The Province of B.C. has chosen Option A for both the B.C. Coast and the B.C. Interior. The Province of B.C. will have the opportunity to change options on January 1, 2010 and January 1, 2013. The Option A export charge effective for October through December 2006 was 15% as the prevailing RLFLC throughout that period was below the floor price of US$315 per thousand board feet. The SLA passed a third reading of the legislation on December 6, 2006, and received Royal Assent on December 15, 2006.

As a result of the SLA, the Company received U.S. duty refunds and related interest of US$105.6 million and US$13.3 million, respectively. The Company's associated special charge liability of $24.4 million was paid on January 31, 2007. The export charge effective for January 2007 through March 2007 remains at 15%.

Monetization of Non-Core Assets

In 2005, the Company conducted an extensive evaluation of its operations, and identified certain assets which it decided were no longer to be part of its future core operations. Following a review of the valuations of these non-core assets, the Company recorded an impairment charge in 2005 of $31.8 million to reduce the carrying values of

these assets to estimated fair values. In 2006, the Company recorded an additional impairment charge of $5.9 million in respect of these assets.

The Company substantially completed the monetization of its non-core assets in 2006, realizing proceeds of $49.2 million and a pre-tax gain of $21.4 million (included in "Other income"), the significant majority of which resulted from the following dispositions:

- Sale of its MacKenzie sawmill ("MacKenzie") in Surrey, B.C.;
- Sale of its wholly-owned subsidiary, B.W. Creative Wood Industries Ltd ("BWC"), a secondary manufacturing operation based in Maple Ridge, B.C.;
- Sale of its helicopter logging operation and assets ("Helifor") ;
- Sale of surplus properties, including the remaining property at its former Fraser Mills site in Coquitlam, B.C. and Squamish., B.C.; and
- Sale of surplus logging and manufacturing assets.

Central and North Coast Land Use Decisions

On February 7, 2006, the Government of B.C. ("Crown") announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The land use decisions involve both the protection of vast areas of temperate rain forest, and a commitment to Ecosystem Based Management ("EBM"). The purpose of EBM is to ensure the well being of ecosystems, people and their communities. The combined Central Coast and North Coast Land and Resource Management Plan areas are approximately 6.4 million hectares. The total combined protected areas for these regions are approximately 1.8 million hectares.

On September 29, 2006 the Chief Forester of the Crown announced temporary reductions in the AAC in the plan areas by 572,000 cubic metres, effective September 28, 2006. Interfor's portion of this reduction is estimated to be 127,000 cubic metres, approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years to account for anticipated reductions for areas set aside during the planning process, and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure once a permanent removal of AAC has been made in accordance with the Forest Act. The amount and timing of any compensation as a result of these reductions is not yet determinable. The Company will record any compensation at the time the amounts to be received can be confidently estimated.

Normal Course Issuer Bids

The Company believes that from time to time, market conditions provide it with opportunities to acquire Interfor shares at attractive prices and that such purchases enhance shareholder value.

On November 9, 2005, the Company commenced a NCIB to acquire up to 2,384,000 Class A Subordinate Voting shares ("Class A Shares"), approximately 5% of the outstanding Class A Shares, through the facilities of the Toronto Stock Exchange ("Exchange"). Under the terms of its NCIB, purchases are made at market prices with a maximum of 2% of the outstanding Class A Shares being purchased in any 30-day period. The NCIB expired on November 8, 2006, by which time the Company had purchased 643,600 Class A Shares at an average price of $6.78 per share.

On November 9, 2006, the Company commenced a new NCIB, entitling it to purchase up to 2,366,000 Class A Shares through the Exchange. As of December 31, 2006, the Company had purchased 87,200 Class A shares under the current program, which will terminate on the earlier of the date on which it acquires 2,366,000 Class A Shares, and November 8, 2007.

In total, the Company acquired 691,700 Class A Shares in 2006 (2005 – 39,100) at a total cost of $4.7 million (2005 - $0.3 million) and all shares were cancelled as purchased. The excess of cost over the assigned value of the total shares purchased in 2006 totaled $466,000 (2005 - $15,000), and this amount has been charged to contributed surplus for the year ended December 31, 2006. A copy of the Notice of Intention to Make a Normal Course Issuer Bid is available from the Company without charge.

Comparison of Year ended December 31, 2006 to Year ended December 31, 2005

Foreign Exchange

The Canadian dollar ("CAD$") continued to strengthen against the US$ in 2006, averaging $1.13, appreciating 8 cents, or 6.4%, from $1.21 in 2005. The exchange rate ranged between $1.17 and $1.10 in 2006 (2005 - $1.27 to $1.15).

Sales

Total sales revenues were $824.4 million in 2006, down $18.2 million from $842.6 million in 2005.

Lumber sales revenue decreased by $35.9 million in 2006 compared to 2005, due to lower average prices and to a lesser extent, the stronger CAD$. Average unit sales values in 2006 were down 6.3%, with the erosion of U.S. structural lumber prices through the second half of 2006 more than offsetting the impact of stable North American cedar and Japanese hemlock markets, and an increased proportion of higher-value cedar products in the 2006 sales mix. Lumber shipments were up 1.0%, with increased production and sales in 2006 from the Adams Lake and Queensboro sawmills and the full year of operations at the Molalla mill (acquired May 31, 2005) offsetting lower operating rates related to the difficult structural lumber markets and challenging log market dynamics.

Log sales revenue in 2006 was down $1.9 million compared to 2005. A decline of 14.2% in B.C. Coast log sale volumes mostly due to weather related shutdowns in early 2006 was mostly offset by an increase in average log prices of 14.6%, driven by higher demand for logs, largely as a result of stronger pulp markets and log shortages in 2006. Pulp chip revenues increased by $7.6 million in 2006 compared to 2005, reflecting higher pulp prices and stronger demand in the current year.

Costs and Expenses

Production costs for the year ended December 31, 2006 were largely unchanged at $722.3 million. For the most part, the disposal of the Company's MacKenzie and BWC operations during 2006, combined with a 5.8% reduction in B.C. Coast log production volumes offset the impact of higher log prices in 2006. Overall lumber production volumes were up marginally by 1.9%. B.C. Coastal average stumpage rates were largely unchanged year-over-year, although rates increased as a result of rising market log prices through the second half of 2006. B.C. Interior average stumpage costs were 34.7% lower than for 2005, largely as a result of the mountain pine beetle issue.

Selling and administration costs in 2006 were $17.8 million, down $1.3 million from 2005, partly due to restructuring initiatives. Long-term incentive compensation expense, which is impacted by the Company's share price, the number of grants made under the various plans and vesting periods, was $0.6 million in 2006, down $1.9 million from $2.5 million in 2005. At December 31, 2006, the price of the Company's Class A Shares was substantially unchanged at $7.19/share ($7.20/share at December 31, 2005).

Depletion and amortization costs decreased by $5.5 million compared to 2005. Depletion and amortization of timber and roads was lower by $7.3 million, resulting from lower construction costs associated with an increase of second growth areas logged, combined with a reduction in conventional logging production. Amortization of plant, property and equipment in 2006 was up $1.8 million from 2005.

Restructuring costs and asset write-downs

Restructuring costs and asset write-downs totaled $7.6 million in 2006, compared to $41.7 million in 2005. The costs in 2006 primarily related to the additional $5.9 million impairment charge recorded on non-core operations during the year. The following table shows the components of restructuring costs and write-downs of plant and equipment for both years:

	2006	2005
	(millions of dollars)	
Property, plant, equipment and timber write-downs	$ 5.9	$ 34.0
Severance and other restructuring costs, net of recoveries	1.7	7.7
	$ 7.6	$ 41.7

Other Income

Other income in 2006 was $20.2 million (2005 - $41.6 million) and was substantially comprised of gains from the disposal of non-core operations and assets during the year.

	2006	2005
	(millions of dollars)	
Gain on disposal of investment, surplus property. plant and equipment	$ 21.4	$ 11.6
Gain on settlement of timber takeback resulting from B.C. Forest Revitalization Plan	-	6.4
Equity participation in gain on surplus assets sold by Seaboard	-	23.6
Other, net	(1.2)	-
	$ 20.2	$ 41.6

Interest

The Company recorded interest income in 2006 of $12.7 million arising on the U.S. duty refund monies, net of the 18.06% special charge. Other interest expense was $3.4 million in the current year, down $1.3 million from the comparable year, reflecting lower average debt levels and interest revenue generated by the U.S. duty refund monies.

Equity Income

The Company recorded equity income of $2.3 million in 2006 compared to $7.0 million in 2005. The decrease was largely attributable to reduced earnings by Seaboard.

Income Taxes

The Company recorded an income tax expense of $42.2 million for 2006 (2005 – recovery of $7.2 million) with an overall effective rate of 30.64% (2005 – (57.71) %). The effective rate in 2006 and the negative rate in 2005 compared to the statutory income tax rate of 34.12% (2005 – 34.87%) is mainly attributable to non-taxable equity income from investments and the non-taxable portion of gains recorded on the sale of surplus properties in both years.

Net Earnings

As a result of the above factors, the Company recorded net earnings of $95.5 million, and $1.97 per share, for the year ended December 31, 2006 compared to $19.7 million, and $0.41 per share, for the year ended December 31, 2005.

CASH FLOWS

Cash generated by operations, before working capital changes, was $142.7 million for the 2006 year (2005 - $49.2 million). After taking account of cash generated from working capital of $43.3 million (2005 - $23.3 million), total cash generated from operations was $186.0 million for the year (2005 - $72.5 million). U.S. duty refund monies, including interest substantially accounted for the increase.

Cash invested in property, plant and equipment, timber and logging roads and acquisitions totaled $90.6 million in 2006 (2005 - $157.0 million). The Company incurred expenditures of $71.9 million for property, plant and equipment and $18.7 million for road construction and acquisition of timber. Major projects in 2006 included a new planer at the Company's Molalla mill, a new primary log breakdown line at its Port Angeles mill (completed in January 2007) and a new hog fuel fired energy system at Adams Lake (scheduled for completion by March 2007). Approximately 75% of the expenditures on plant and equipment are expected to enhance the competitive position of the Company, with the remainder used to maintain the efficiency of the Company's operations, and for development costs related to surplus land. The Company currently anticipates that capital spending in 2007 will be in the region of $70 to $80 million.

Cash proceeds from the sale of non-core assets in 2006 totaled $49.2 million (2005 - $47.8 million). The Company used cash of $25.0 million to pay off its securitized receivables in 2006 (see "Current Assets" and "Off Balance Sheet Arrangements" for more details).

At December 31, 2006, the Company's US$35.0 million non-revolving term line of credit was revalued to year-end foreign exchange rates, which resulted in a marginal increase in long-term debt of $0.1 million to $40.8 million. The Company ended the year with cash, net of debt of $107.8 million, the majority of which consisted of cash on deposit and short term investments primarily denominated in U.S. currency.

Liquidity

The Company expects to fund its ongoing operations and normalized future capital expenditures for maintenance of equipment and road development through cash generated from operations and utilization of cash balances and its existing bank facilities. This is based on maintenance of the Company's current operating capacity, and would exclude any additional requirements resulting from any major acquisitions which could occur in the future. (Refer also to comments under "General Overview" above and "Current Liabilities", "Long-Term Liabilities", and "Summary of Contractual Obligations" below.)

Summary of Issuance of Shares

The only major issuance of shares over the last five years, excluding those shares issued on exercised employee options, was in 2003 when 12,900,000 shares were issued for net proceeds of $72.2 million. The net proceeds were used as planned to pay down bank indebtedness.

FINANCIAL POSITION

Summary of Financial Position	2006	2005	2004	2003	2002
			(millions of dollars)		
Current assets	289.7	173.7	186.8	130.5	201.2
Current liabilities	123.8	145.4	86.4	82.6	126.4
Working capital	165.9	28.3	100.4	47.9	74.8
Total assets	675.1	599.6	567.4	466.8	537.3
Total long-term liabilities	73.4	67.6	108.3	37.0	114.0
Operating debt	0.6	62.4	0.0	13.0	0.0
Long-term debt	40.8	40.7	74.2	0.0	50.0
Total debt	41.4	103.1	74.2	13.0	50.0
Shareholders' equity	478.0	386.5	372.7	347.2	297.2
Invested capital	519.4	489.6	446.9	360.2	347.2
Ratio and Investment Information					
Current ratio	2.3	1.2	2.2	1.6	1.6
Total debt as a percentage of invested capital	8.0%	21.1%	16.6%	3.6%	14.4%
Return on average shareholders' equity[1]	22.1%	5.2%	6.9%	(7.0)%	14.2%
Return on average invested capital[1]	19.4%	4.8%	6.6%	(5.8)%	11.8%
Pre-tax return on total assets[1]	2.3%	2.1%	5.2%	(8.3)%	11.6%
Cash flow from operations as a percentage of total debt[1]	344.9%	47.7%	90.0%	(38.0)%	215.5%
Equity per share	$9.93	$7.94	$7.66	$7.18	$8.36
			(millions)		
Weighted average shares outstanding for the year	48.5	48.7	48.4	39.5	35.9
Number of shares outstanding at year end:					
Class A subordinate voting[2]	47.1	47.7	47.6	47.4	34.5
Class B common[2]	1.0	1.0	1.0	1.0	1.0
	48.1	48.7	48.6	48.4	35.5
Re-investment					
Cash flow from operations[1]	142.7	49.2	66.7	(4.9)	107.8
Cash generated from (used in) operating working capital	43.3	23.3	5.1	6.0	(20.0)
Proceeds on disposal of assets	49.2	47.8	33.0	3.5	3.5
Capital expenditures and acquisitions	(90.6)	(157.0)	(156.6)	(39.9)	(41.1)

1 See Glossary for definition

2 As at February 8, 2007 the number of shares outstanding by class are: Class A Subordinate Voting shares – 47,024,796, Class B Common shares – 1,015,779, Total – 48,040,575

Current Assets

Accounts receivable at December 31, 2006 were $12.8 million higher than 2005. A higher level of receivables following the termination of the accounts receivable securitization program on December 15, 2006 was partly offset by the impact of lower sawmill operating rates on lumber shipments in late 2006 and the sale of BWC.

Inventory levels at December 31, 2006 were down $21.8 million compared to 2005. Lumber inventory volumes decreased by 20.2% due to lower operating rates in the fourth quarter, and the sale in September 2006 of MacKenzie. Lumber inventory unit values decreased 17.3%, primarily reflecting the impact of depressed market prices on inventory valuations. B.C. log inventory volumes were down by 19.9% year-over-year, but unit values were higher by 7.7%, as a result of increased cost of purchased logs. The disposal of BWC resulted in a decrease in other inventories of 45.3%.

Current Liabilities

As at December 31, 2006, the Company had Canadian and U.S. operating lines of credit of $60.0 million and US$15.0 million, respectively. Drawings under these lines are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company's total available Canadian operating line of credit of $55.3 million, after outstanding letters of credit of $4.7 million was unused and US$10.4 million of the available U.S. operating line of credit of US$10.5 million was unused. The Company's working capital ratio at December 31, 2006 was 2.3 to 1.

Accounts payable levels at December 31, 2006 were 15.3% higher than for the 2005 year end, due primarily to the Company's SLA special charge liability of $24.4 million, which was subsequently paid to the Canadian government in January 2007. The sales in 2006 of MacKenzie, BWC and Helifor, reduced levels of production in the fourth quarter of 2006, and reduced restructuring accruals partly offset the special charge liability. The Company had a current income tax liability of $27.4 million at December 31, 2006 (December 31, 2005 - $nil), as a result of its higher level of earnings in 2006.

Investments and Other Assets

Investments and Other Assets decreased by $51.3 million compared to December 31, 2005. This was substantially due to an income distribution of $54.4 million received from the Seaboard Partnership in early January 2006, which was recorded as a reduction of the investment in the Seaboard Partnership, in accordance with equity accounting, as described in note 6 to the consolidated financial statements.

The Company's investment in Seaboard is subject to the customary risks and uncertainties that affect an international shipping company, and include open market charter rates, foreign exchange rates, costs of fuel oil and interest rates.

Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of property, plant and equipment, timber and logging roads increased by $15.7 million in 2006, with capital spending of $90.6 million more than offsetting a total amortization and depletion expense of $52.0 million, and the net book value of non-core assets sold in the year.

Investments in property, plant and equipment consisted of high-return discretionary projects of $55.1 million, maintenance of business projects of $14.6 million, and $2.2 million of development costs related to surplus land either sold or being prepared for sale. Major capital investments in 2006 included a new primary log breakdown line at the Port Angeles mill ($14.6 million in 2006) that was completed in January 2007, a new planer mill and related projects at Molalla ($8.3 million in 2006), and a new hog fuel fired energy system at Adams Lake ($14.2 million) scheduled for completion by March 2007.

At December 31, 2006, the Company had outstanding contractual commitments related to plant and equipment expenditures of approximately $5.5 million. This amount is included in the table shown in "Summary of Contractual Obligations" below.

Long-Term Liabilities

In 2006, the Canadian revolving term line (the "Revolving Line") was reduced to $40.0 million from $90.0 million and the maturity date was extended to April 27, 2007. The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans. The Revolving Line was undrawn both at December 31, 2006 and 2005.

The $US non-revolving term line (the "Non-Revolving Line") remained fully drawn at US$35.0 million (2005 – US$35.0 million) and was revalued at the year-end exchange rate to $40.8 million (2005 - $40.7 million). The Non-

Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans, and matures on September 1, 2009.

Both lines are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

The reforestation liability declined by $2.0 million as a result of regulatory and strategic changes to treatments for certain reforested areas.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which encompass letters of credit and surety bonds. These are more fully described in Note 9(a) and Note 16(d) to the Consolidated Financial Statements. At December 31, 2006, the total of such instruments aggregated $11.1 million. On December 15, 2006 the Company terminated its accounts receivable securitization program. Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Summary of Contractual Obligations

The payments due in respect of contractual and legal obligations may be summarized as follows:

	Total	Payments due by period Up to 1 year	2-3 years	4-5 years	After 5 years
	(millions of dollars)				
Reforestation liability	20.4	7.2	5.3	3.6	4.3
Long-term debt	40.8	-	40.8	-	-
Other long-term liabilities	15.6	7.0	1.9	1.2	5.5
Operating leases and contractual commitments	30.6	11.8	10.7	5.8	2.3
Total contractual obligations	107.4	26.0	58.7	10.6	12.1

Related Party Transactions

Lumber sales to an affiliate of a significant shareholder amounted to $2.9 million (2005 - $4.0 million). Shipping services provided by Seaboard Shipping Company Limited totaled $8.9 million (2005 - $11.8 million). These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	2006 Quarters 1st	2nd	3rd	4th	2005 Quarters 1st	2nd	3rd	4th
	(millions of dollars except share and per share amounts)							
Sales – Lumber	177.7	173.5	153.9	120.5	162.1	161.8	166.2	171.3
– Logs[2]	17.2	22.0	31.4	32.6	18.8	32.2	28.2	25.9
– Wood chips and other by-products	9.1	9.3	11.3	12.1	8.2	8.3	9.0	8.6
– Other	12.2	19.7	12.6	9.3	5.3	12.9	12.3	11.5
Total Sales	216.2	224.5	209.2	174.5	194.4	215.2	215.7	217.3
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	8.5	8.3	-	(2.4)	7.1	6.6	(2.8)	(0.6)
Operating earnings (loss)	8.9	0.3	-	94.5	7.1	(19.9)	(4.0)	(14.7)
Net earnings (loss)	8.7	8.0	1.6	77.2	10.9	9.0	4.7	(4.9)
Net earnings (loss) per share – basic	0.18	0.17	0.03	1.60	0.22	0.18	0.10	(0.10)
– diluted	0.18	0.16	0.03	1.58	0.22	0.18	0.10	(0.10)
EBITDA[4]	22.7	33.7	14.5	117.1	28.1	44.9	23.6	19.7
Cash flow from operations per share[1]	0.39	0.44	0.29	1.83	0.36	0.44	0.18	0.03
Shares outstanding – end of period (millions)[3]	48.7	48.4	48.3	48.1	48.7	48.7	48.7	48.7
– weighted average (millions)	48.7	48.6	48.4	48.2	48.7	48.7	48.7	48.7
Adjusted EBITDA[4]	19.9	23.6	13.9	13.6	21.2	23.5	13.5	16.5

1 Cash generated from operations before taking account of changes in operating working capital.
2 Log sales revenue includes a reclassification of B.C. interior log sales previously credited to production costs.
3 As at February 6, 2007 the number of shares outstanding by class are: Class A Subordinate Voting shares – 47,024,796, Class B Common shares – 1,015,779, Total – 48,040,575.

4 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for U.S. duty refunds and other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2006				2005			
	Quarters				Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(millions of dollars)							
Net earnings (loss)	8.7	8.0	1.6	77.2	10.9	9.0	4.7	(4.9)
Add: Income taxes (recovery)	3.0	2.1	(1.3)	38.5	4.9	(6.5)	0.7	(6.3)
Interest expense	1.0	1.0	0.9	0.5	1.0	1.0	1.3	1.3
Interest income on U.S. duty refund, net of special charge	-	-	-	(12.7)	-	-	-	-
Depletion and amortization	10.4	14.6	13.4	13.6	11.3	14.9	15.8	15.5
Restructuring costs, asset write-downs and other	(0.4)	8.0	-	-	-	26.5	1.1	14.1
EBITDA	22.7	33.7	14.5	117.1	28.1	44.9	23.6	19.7
Deduct:								
U.S. duty refunds, net	-	-	-	96.9	-	-	-	-
Other income	2.8	10.1	0.6	6.6	6.9	21.4	10.1	3.2
Adjusted EBITDA	19.9	23.6	13.9	13.6	21.2	23.5	13.5	16.5

Volume and Price Statistics		2006				2005			
		Quarter				Quarter			
		1st	2nd	3rd	4th	1st	2nd	3rd	4th
Lumber sales	(million fbm)	329	319	299	225	256	264	309	332
Lumber production[1]	(million fbm)	325	326	292	222	253	266	308	316
Log sales[2]	(thousand cubic metres)	222	229	358	381	204	403	388	365
Log production[2]	(thousand cubic metres)	391	667	707	616	447	765	712	634
Average selling price – lumber[3]	($/thousand fbm)	$540	$545	$515	$534	$633	$613	$538	$516
Average selling price – logs[2]	($/cubic metre)	$77	$95	$87	$85	$83	$80	$73	$70
Average selling price – pulp chips	($/thousand fbm)	$25	$26	$35	$49	$29	$27	$25	$24

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs
2 B.C. operations
3 Gross sales before duties and export taxes

Quarterly trends normally reflect seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall.

Excluding the impact of the U.S. duty refunds, net, restructuring costs and asset write-downs, the decrease in operating earnings in the third and fourth quarters of 2006 related primarily to weaker U.S. structural lumber markets and log pricing issues, which resulted in lower operating rates and lumber prices. The declines in operating earnings in the third and fourth quarters of 2005 were largely a result of declines in product selling prices and the continued strengthening of the Canadian dollar against the U.S. dollar.

Quarter 4, 2006 Compared to Quarter 4, 2005

The Company recorded a net profit of $77.2 million or $1.60 per share in the fourth quarter of 2006 compared to net earnings of $1.6 million or $0.03 per share in the immediately preceding quarter, and a net loss of $4.9 million or $0.10 per share in the fourth quarter of 2005. EBITDA was $117.1 million, compared to $19.7 million in the same quarter in 2005. Adjusted EBITDA for the quarter ended December 31, 2006 was $13.6 million, compared to $16.6 million in the comparative quarter of 2005.

The positive results in the current quarter were due almost entirely to the Company's US$105.6 million U.S. duty refund monies and related interest of US$13.3 million, net of the special charge of $24.4 million. Earnings were buoyed by higher prices for the Company's North American cedar products, increased prices in Japan markets, and a

higher-value sales mix, which partly offset the impact of weak U.S. structural lumber markets and high log prices. The Company also sold several non-core assets in the current period.

Lumber shipments totaled 225 million board feet in the fourth quarter of 2006, compared to 299 million board feet in the preceding quarter and 332 million board feet in the fourth quarter of 2005. The decline in the current quarter reflected difficult U.S. structural lumber markets and challenging log markets, with the U.S. Pacific Northwest mills most heavily impacted. Unit lumber sales values were up 3.8% and 3.6%, compared to the immediately preceding quarter and the last quarter of 2005, respectively, reflecting a higher proportion of cedar products in the Company's sales mix, strong Cedar prices and improved Japanese hemlock prices, which outweighed a decline in U.S. structural lumber prices.

Log revenues in the current quarter increased by 4.0% from the third quarter of 2006 due primarily to additional sales volume. Compared to the fourth quarter of 2005, total log revenues were up 25.9% mostly reflecting higher log prices. Pulp chip revenues improved by $3.6 million compared to the fourth quarter of 2005, reflecting increased demand for residual chips and higher pulp prices. Chip revenues were up $1.0 million compared to the third quarter of 2006.

Production costs in the current quarter were down 17.6% compared to the same period in 2005, as the impact of reduced costs from operating at lower rates and the sale of several operations earlier in 2006 more than offset higher log prices and rising stumpage costs on the B.C. Coast.

Selling and administrative costs were $3.2 million, compared to $4.0 million for the last quarter of 2005, while long term incentive compensation declined $0.3 million to $1.4 million. The prevailing lumber export tax from October 12, 2006 through December 31, 2006 was 15%.

Amortization and depletion expense in the current quarter totaled $13.6 million, down $1.9 million from $15.5 million in the current quarter of 2005. The reduction reflected lower sawmill and conventional logging production in the current quarter, as well as lower road construction costs associated with an increase of second growth areas logged.

In the fourth quarter of 2006, the Company completed the sale of Helifor, the sale of its remaining property at its former Fraser Mills site, and the sale of additional surplus logging equipment. The Company recorded proceeds of $11.2 million, and a pre-tax gain, of $7.2 million (included in Other income of $6.6 million). Other income in the comparative quarter of 2005 was $3.2 million.

Excluding U.S. duty refund interest, net of the special charge, of $12.7 million, interest expense (long-term debt and other) in the current quarter was $0.5 million, down $0.8 million from the fourth quarter of 2005, reflecting the impact of the U.S. duty refund monies received in late 2006.

Equity earnings in the current period declined $1.2 million compared to the same quarter of 2005, due to lower earnings recorded by Seaboard.

Cash generated by the Company from operations, after changes in working capital of $60.7 million (Quarter 4, 2005 - $15.4 million), was $149.0 million for the current quarter, compared to $17.1 million for the last quarter of 2005. The increase was substantially due to the receipt of U.S. duty refunds and related interest.

Capital spending for the fourth quarter of 2006 totaled $21.1 million (Quarter 4, 2005 - $15.2 million), and was comprised of $14.8 million on high-return discretionary projects, $3.7 million on maintenance projects and $2.7 million on roads.

Cash in the current quarter increased by $134.0 million. The cash balance at year end was $149.2 million, before long-term debt of $40.8 million and bank indebtedness of $0.6 million, to give a net cash balance of $107.8 million. At December 31, 2005, net debt, excluding a short-term loan from Seaboard (which was repaid January 3, 2006), was $29.7 million.

Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Interfor's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Interfor, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared.

An evaluation of the design of internal controls over financial reporting as of December 31, 2006 was conducted under the supervision of management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that internal controls and procedures, defined under Multilateral Instrument 52-109, have been designed to reasonably ensure the reliability of financial reporting and that the preparation of financial statements for external purposes are in accordance with those rules. In the process of evaluating the design of internal controls over financial reporting, management enhanced its controls, in certain cases, by refining and formalizing selected policies and procedures.

Critical Accounting Estimates

Valuation of Accounts Receivable. Interfor regularly reviews the collectibility of its accounts receivable and records an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expenses to be recorded. Although Interfor has not experienced any significant bad debt expenses in prior periods, declines in the economy could result in collectibility concerns. Accounts receivable balances for individual customers could potentially be material at any given time.

Valuation of Inventories. Interfor values its lumber inventories at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom or sort basis. Other inventories consist primarily of supplies and are recorded at the lower of cost and replacement cost. The unit net realizable value is determined by a reference to the average net sales by specific product in the periods immediately following and preceding the reporting date. The unit cost for lumber is based on a three month moving average actual cost, lagged by one month, and for logs is based on a twelve month moving average actual cost, lagged by one month. Instances where net realizable value is lower than cost result in a charge to operating earnings in the period. Downward movements in commodity prices could result in a material write-down of inventory at any given time.

Recoverability of Property, Plant and Equipment, Timber and Logging Roads. Interfor's assessment of recoverability of property, plant and equipment, timber and logging roads is made with reference to projections of future cash flows to be generated by its operations. These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, duties and other factors. There is a high degree of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated cost of reforestation as the timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liability could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate any roads constructed and used to access timber once that access is no longer required. Accordingly, Interfor also accrues the cost of road deactivation as the related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liability could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Environmental Obligations. Environmental expenditures that relate to an existing condition caused by past operations are charged as current production costs once existence of a liability and costs of rehabilitation efforts can be reasonably determined. Interfor engages independent third party experts to assist in determining the existence of environmental liabilities, appropriate prescriptions for treatment and related costs. Estimates of environmental obligations could be materially impacted by a number of factors including incorrect or incomplete problem definition and identification of treatments, or inaccurate cost projections. Incorrect estimates could result in a material charge against operating earnings.

Pension Benefits. Interfor maintains defined contribution plans available to all salaried employees and U.S. hourly employees and a defined benefit plan available only to B.C. Interior non-unionized hourly employees. The Company retains independent actuarial consultants to value its defined pension benefit obligations and plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations and expected rates of return on plan assets to be used to fund obligations. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Income Taxes. The Company's provision for income taxes, both current and future, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for federal, provincial and foreign taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Future income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation, Section 3865, Hedges, and Section 1530, Comprehensive Income all applicable to the Company for annual or interim accounting periods beginning on January 1, 2007.

Section 3855 requires all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet and measured based on specified categories. Section 3861 identifies and details information to be disclosed in the financial statements.

Section 3865 sets out when hedge accounting can be applied and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and disclosed.

Section 1530 introduces new standards for the presentation and disclosure of the components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources.

The Company is currently evaluating the full impact of the standards and will be required to present a new statement entitled "Comprehensive Income".

The CICA also issued Section 1506, Accounting Changes which revises the current standards on changes in accounting policy, estimates or errors as follows:

- Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information
- Changes in accounting policy are to be applied retrospectively unless doing so is impracticable
- Changes in estimates are to be recorded prospectively
- Prior period errors are to be corrected retrospectively

In addition, these standards call for enhanced disclosure about the effects of changes in accounting policies, estimates and errors on the financial statements.

These revised standards are effective for the Company from January 1, 2007. The impact of Section 1506 cannot be determined until such time as the Company makes a change in accounting policy.

RISKS AND UNCERTAINTIES

Pricing

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States and Japan), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products.

Based on 2006 levels of operations, a $10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	$10 increase per thousand fbm	$7.7 million increase in net income
Chips	$10 increase per unit[1]	$4.1 million increase in net income

1 Interfor sells chips in either volumetric units (VU's or GPU's - B.C. Coastal operations) or bone dry units (BDU's - B.C. Interior and U.S. Pacific Northwest operations).

Competition

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number are, in certain product lines, lower cost producers than Interfor.

Factors which affect the Company's competitive position include:

- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the cost of export taxes payable on sales to the U.S.; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian mills purchase in excess of 50% of their log requirements either through long-term trade and purchase agreements or on the open market. The Company relies on 100% purchased wood for its U.S. based mills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

Use of Financial and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts are the Company's bankers and, hence, the risk of credit loss on the instruments is mitigated.

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately three-quarters of their lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount of Japanese Yen. While the Canadian operations also incur some US$ denominated expenses, primarily for export taxes, ocean freight, and other transportation and equipment operating leases, the majority of its expenses are incurred in CAD$.

An increase in the value of the CAD$ relative to the US$ would reduce the amount of revenue in CAD$ realized by the Company from lumber sales made in US$. This would reduce the Company's operating margin and the cash flow available to fund operations. As a result, any such increase in the value of the CAD$ relative to the US$ could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company actively manages its currency exchange risk in fluctuations in US$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. At December 31, 2006 the Company had outstanding obligations to sell a maximum of US$16.5 million at an average rate of CAD$1.1578 per US$1.00 and ¥445 million at an average rate of ¥101.70 per CAD$1.00, using a combination of forward and option contracts. All foreign currency gains or losses to December 31, 2006 have been recognized in the consolidated statement of operations.

Based on the Company's net exposure to foreign currencies in 2006 and U.S. dollar denominated cash held in deposits and short term investments at year end, the sensitivity of Interfor's net earnings is as follows:

U.S. Dollar	$0.01 increase vs. CAD$	$1.7 million increase in net income
Japanese Yen	1¥ increase vs. CAD$	$0.1 million increase in net income

Interfor's U.S. operations produce and sell products exclusively for the U.S. market. All revenues and expenses are denominated in U.S. dollars. Self sustaining operations' assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Long-term obligations, used to finance the purchase of the U.S. operations, are designated as hedges of investments in those operations. Cumulative exchange gains or losses that arise from the revaluation of the self sustaining operations as well as cumulative unrealized gains or losses arising on translation of the long term obligations are recorded as cumulative translation adjustments, a separate component of shareholders' equity. The Company recorded a nil cumulative translation adjustment in 2006 (2005 - $6.0 million).

Cost of Debt Financing and Sensitivity

As at December 31, 2006 Interfor had drawn a total of $40.8 million of floating rate debt under its term and operating credit facilities.

The Company's operating and term debt facilities bear interest at the bank prime rate plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances for CAD$ loans or at LIBOR for US$ loans. The lines of credit are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

In September 2005, the Company entered into a cross currency interest rate swap. The Company swapped US$20 million denominated debt at an exchange rate of 1.1765 (CDN$23.5 million). The Company pays 5.84%, including a spread of 200 basis points, on the Canadian dollar equivalent and receive 90 day LIBOR plus a spread of 200 basis points on the US$20 million. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009. All gains and losses on the swap have been recognized in the Consolidated Statement of Operations.

Based on the Company's average debt level during 2006, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.3 million to net earnings.

Forest Policy Changes in British Columbia

Over the last several years the Crown has initiated a number of new changes to forest policy that will help make a more viable and competitive forest industry in B.C. Policy changes in progress include a results based Forest Practices Code; First Nation tenure opportunities and revenue sharing; market based timber pricing; the elimination of minimum cut control regulations; the elimination of existing timber processing regulations; and the elimination of restrictions limiting the transfer and subdivision of existing licenses. The Crown also implemented the Forestry Revitalization Plan ("FRP") that included a reallocation of tenure that reduced the AAC of major licence holders,

including Interfor, by 20%. The FRP stated that approximately half of this volume would be redistributed to woodlots, community forests, and First Nations, and the other half would be available for public auction under the Timber Sales Program.

The Crown has stated that fair compensation will be provided for the taking of AAC that recognizes both the benefits and costs of reform. Interfor negotiated an agreement with the Crown to complete a comprehensive settlement for compensation in March 2005. While a significant portion of the compensation settlement has been received, certain aspects of the agreement have not been determined and the final settlement remains uncertain.

New policy changes are expected from the Crown while others remain to be fully implemented. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut

Interfor holds cutting rights that represent an AAC of approximately of 2.6 million cubic metres. Of this amount 2.4 million cubic metres is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures that will expire over time.

The AAC is regulated by the Ministry of Forests and Range (MoFR) and subject to periodic reviews that assess and then make determinations to set harvesting rates for each tenure. Many factors affect the AAC such as timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

Interfor's Coastal AAC in the Central and North Coast region has been reduced to take into account the impact of the new protected area additions. A further reduction is anticipated to address future impacts associated with the implementation of EBM practices. However, the amount of impact on Interfor's AAC is not known at this time, as formal legal objectives for EBM and timber supply analyses have not yet been determined by government. Reductions in Interfor's AAC from new protected areas are subject to compensation, once these areas have been formally removed. There can be no assurance that the amounts of such reductions, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Interfor's B.C. Interior operation has had a temporary increase in their AAC resulting from the acquisition of new non-replaceable cutting rights (155,000 cubic metres for 3 years) directed at beetle damaged and killed stands in the Kamloops Forest District. The amount of timber available for harvest in the B.C. Southern Interior is expected to increase for the next five to ten years as a consequence of an accelerated harvest to address the impacts from the pine beetle epidemic. The longer term impact of the beetle is expected to reduce the overall timber supply once the surplus of dead pine is no longer useable. The amount and duration of the increase and subsequent decline cannot be determined at this time.

Aboriginal Issues

In 1997, the Supreme Court of Canada, in the Delgamuukw decision, confirmed the continued existence of aboriginal title and rights in areas of British Columbia, which are not covered by treaties. Accordingly, aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve aboriginal rights and title claims. In addition, the governments have entered, and may continue to enter, into interim measures agreements with aboriginal groups. Any interim measures agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self government. The impact of aboriginal claims or treaty settlements on Interfor's forest tenures or the amounts of compensation to Interfor, if any, cannot be estimated at this time.

The duty to consult and accommodate aboriginal groups has become a central issue facing governments and the forest industry. While the courts have established that the Crown has a duty to consult and accommodate aboriginal groups, there was uncertainty as to how and to what this requirement will be applied. Uncertainty also existed in what responsibility a company may have as a result of the Crown's failure to carry out its duties. In a Supreme Court of Canada's decision on November 18, 2004, it was made clear that third parties (tenure holders) are not responsible for consultation and accommodation of aboriginal interests. It is the Crown's obligation to consult and, where appropriate, accommodate aboriginal interests. The questions of responsibility and appropriateness of balancing interests will continue to evolve as the courts provide greater clarity to these complex issues. In addition the province has initiated a New Relationship process with First Nation leaders that are intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement.

Stumpage Fees

Stumpage is the fee the Crown charges companies to harvest timber from Crown land. Prior to February 29, 2004, the amount of stumpage paid for each cubic metre of wood harvested was based on a target rate set by government. Stumpage payments for a harvesting area took into consideration specific operating conditions, timber quality and administrative procedures.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The move to a more open and competitive market pricing system ('MPS") for timber and logs for the Coastal and Interior forest sector have been implemented by the British Columbia government. The primary variable in MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that go into determining an individual stumpage rate for each cutting permit. Periodic changes in the British Columbia government's administrative policy can affect stumpage costs and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

Interfor has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of our environmental performance. Interfor may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have material adverse effect on Interfor's financial condition and results of operations.

Labour Disruptions

The majority of the Company's Canadian sawmill employees are members of the United Steel Workers of America ("Steel Workers"). A collective agreement with Steel Workers expires on June 14, 2007. Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on the Company's business. The Company believes that its labour relations are stable and does not anticipate any related disruptions to its operations.

OUTLOOK FOR 2007

The Company anticipates that North American structural lumber market conditions will remain challenging in 2007, given the expected slowdown in the U.S. economy and the lower level of U.S. housing starts anticipated for 2007. The repair and renovation market is forecast to be relatively stable, and this should mitigate the impact on overall dimension and stud lumber consumption. Given this outlook, prices in the U.S. are forecast to remain at low levels through the year. The Company anticipates that, as a result, export taxes are likely to be payable on sales to the U.S. through most of 2007

With respect to other markets, the Company expects North American demand in 2007 for its cedar products to remain strong and pricing to remain at near current levels. In Japan, the housing market is expected to be relatively stable in 2007, reflecting the improving health of the economy. Prices for the Company's products are expected to remain at similar levels to those for 2006.

The recent weakening of the CAD$ versus the US$ and Yen is forecast to continue in the near term, but beyond this timeframe, the outlook is more difficult to call.

Other factors which could affect operating conditions in 2007 include the impact of pulp market demand on log prices and log supply (particularly in the U.S. Pacific Northwest) and an expected increase in average stumpage rates on the B.C. Coast in 2007 reflecting the impact of rising log prices in the latter part of 2006.

In 2007, the Company plans to continue to look for selective growth opportunities in regions and products with attractive fundamentals, and focus on high-return capital projects that will demonstrably enhance shareholder value.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations can be found on its website at www.interfor.com and in the Annual Information Form and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

Duncan K. Davies
President and Chief Executive Officer

John A. Horning
Senior Vice President and Chief Financial Officer

January 31, 2007

INTERFOR

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2006 and 2005 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

January 31, 2007

International Forest Products Limited

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
December 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash (note 1(b))	$ 149,171	$ 19,061
Accounts receivable (note 21(c))	50,748	37,911
Income taxes receivable	-	625
Inventories (note 5)	81,150	102,960
Prepaid expenses	4,405	6,439
Future income taxes (note 15)	4,179	6,659
	289,653	173,655
Investments and other assets (notes 6 and 22)	13,360	64,626
Property, plant and equipment (note 7)	309,744	289,227
Timber and logging roads (note 8)	47,597	52,375
Goodwill and other intangible assets	13,137	15,694
Future income taxes (note 15)	445	3,980
Long-lived assets held for sale (note 4)	1,210	-
	$ 675,146	$ 599,557
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 9(a))	$ 582	$ 8,053
Accounts payable and accrued liabilities	95,370	82,685
Income taxes payable	27,439	-
Payable to investee company (note 6)	-	54,354
Future income taxes payable (note 15)	364	351
	123,755	145,443
Reforestation liability, net of current portion (note 11)	13,210	15,242
Long-term debt (note 9(b))	40,789	40,705
Other long-term liabilities (note 10)	8,602	8,546
Future income taxes (note 15)	10,788	3,100
Shareholders' equity:		
Share capital (note 12):		
Issued and fully paid:		
Class A subordinate voting shares	291,086	294,683
Class B common shares	4,080	4,080
Contributed surplus (note 12(a))	7,720	8,186
Cumulative translation adjustment (note 1(o))	(6,361)	(6,371)
Retained earnings	181,477	85,943
	478,002	386,521
	$ 675,146	$ 599,557

Commitments and contingencies (note 16)
Subsequent event (note 22)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

W. L. Sauder, Director

H.C. Kalke, Director

International Forest Products Limited

Consolidated Statements of Operations

(Expressed in thousands of Canadian dollars, except earnings per share amounts)
Years ended December 31, 2006 and 2005

	2006	2005
Sales	$ 824,439	$ 842,583
Costs and expenses:		
Production	722,275	722,873
Selling and administration	17,806	19,145
Long term incentive compensation	595	2,509
U.S. countervailing and antidumping duty deposits (note 2)	14,725	30,358
Export taxes (note 2)	2,683	-
Amortization of plant and equipment	30,073	28,270
Depletion and amortization of timber, roads and other	21,902	29,185
	810,059	832,340
Operating earnings before U.S. duty refund, restructuring costs and write-downs of property, plant, equipment and timber	14,380	10,243
U.S. duty refund, net (note 2)	96,928	-
Restructuring costs and write-downs of property, plant, equipment and timber (note 14)	(7,577)	(41,694)
Operating earnings (loss)	103,731	(31,451)
Other earnings (expenses):		
Interest expense on long-term debt	(3,174)	(3,609)
Other interest expense	(241)	(1,070)
Interest income on U.S. duty refunds, net of special charge (note 2)	12,684	-
Other foreign exchange gain	2,317	5
Other income (note 13)	20,163	41,595
Equity in earnings of investee companies (note 6)	2,254	7,037
	34,003	43,958
Earnings before income taxes	137,734	12,507
Income taxes (note 15):		
Current	28,100	2,306
Future (recovery)	14,100	(9,524)
	42,200	(7,218)
Net earnings	$ 95,534	$ 19,725
Net earnings per share (note 17):		
Basic	$ 1.97	$ 0.41
Diluted	$ 1.95	$ 0.40

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2006 and 2005

	2006	2005
Retained earnings, beginning of year	$ 85,943	$ 66,218
Net earnings	95,534	19,725
Retained earnings, end of year	$ 181,477	$ 85,943

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings	$ 95,534	$ 19,725
Items not involving cash:		
Amortization of plant and equipment	30,073	28,270
Depletion and amortization of timber, roads and other	21,902	29,185
Future income taxes	14,100	(9,524)
Reforestation liability	(2,032)	(1,740)
Other long-term liabilities	56	(961)
Equity in earnings of investee companies	(2,254)	(7,037)
Write-down of property, plant, equipment and timber (note 14)	5,868	34,026
Other (note 13)	(20,542)	(42,729)
	142,705	49,215
Changes in non-cash operating working capital:		
Accounts receivable (note 21(c))	(15,037)	8,591
Inventories	13,603	16,147
Prepaid expenses	2,082	3,917
Accounts payable and accrued liabilities	14,370	(4,230)
Income taxes	28,316	(1,119)
	186,039	72,521
Investments:		
Additions to property, plant and equipment	(71,909)	(53,727)
Additions to logging roads and timber	(18,694)	(20,136)
Additions to deferred start up costs (note 1(f))	-	(3,215)
Proceeds on disposal of property, plant and equipment	49,234	47,770
Acquisitions (note 3)	-	(79,905)
Cash received on acquisition of subsidiary (note 3)	-	2,650
Investments and other assets	(2,176)	3,832
	(43,545)	(102,731)
Financing:		
Repurchase of share capital (note 12(a))	(4,739)	(257)
Issuance of share capital, net of expenses (note 12(a))	676	344
Increase (decrease) in bank indebtedness	(7,471)	8,053
Additions to long-term debt (notes 3 and 9(b))	-	48,778
Repayments of long-term debt (note 9(b))	-	(79,288)
Funds from promissory note and advance from investee company (note 6)	-	54,354
	(11,534)	31,984
Foreign exchange gain on cash and cash equivalents held in a foreign currency	(850)	(972)
Increase in cash	130,110	802
Cash, beginning of year	19,061	18,259
Cash, end of year	$ 149,171	$ 19,061
Supplementary disclosures:		
Cash interest paid (received)	$ (9,269)	$ 4,679
Cash income taxes paid (received)	(701)	5,044

See accompanying notes to consolidated financial statements.

1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Primex Fibre Ltd., Helifor Industries Limited, Interfor Japan Ltd., Cedarprime Inc., Interfor Pacific Inc., Prineco Inc., Interfor U.S. Inc., Interfor U.S. Holdings L.P., Interfor U.S. LLC, Klamath Northern Railway Company, and Interfor China Ltd. from their respective dates of acquisition. All intercompany balances and transactions have been eliminated on consolidation.

(b) Cash

Cash consists of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(c) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are in boom form, or in aggregate on a species and sort basis where the logs no longer exist in boom form. Other inventories consist primarily of supplies and are recorded at lower of cost and replacement cost.

(d) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Other investments are accounted for on the cost basis.

(e) Property, plant and equipment and timber and logging roads:

Property, plant and equipment and timber and logging roads are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 25%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years.

(f) Deferred start-up costs:

Start-up costs on major plant construction are deferred to the extent these costs meet the criteria under the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee Abstract 27 and the site reaches sustainable productions levels which are defined as the earlier of:

(i) Seventy percent of production capacity for two consecutive months; or

(ii) Six months

and to a maximum of twenty percent of the total project cost.

Startup-costs are amortized over five years on a straight-line basis and are included on the balance sheet in property, plant and equipment.

(g) Reforestation liability:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur. These costs are included in the cost of current production.

(h) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of arbitration, restructuring, reforestation, road deactivation, environmental and tax obligations, recoverability of assets and rates for depletion and amortization. Actual results could differ from those estimates.

1. Significant accounting policies (continued):

(j) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

(k) Share-based compensation:

The Company has share option plans and other share-based compensation plans for directors, officers and certain other eligible employees.

The Company follows the fair value method of accounting for share options granted to directors, officers and employees. Under the fair value method, compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant.

For other share based compensation plans which are based on changes in the value of the Company's share price, the Company records an expense for changes in the estimated compensation over the vesting period based on the quoted market price of the Company's shares over the strike price of the grant.

(l) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, before freight, wharfage and handling costs, and countervailing and antidumping duties and export taxes.

(m) Employee future benefits:

The estimated costs for pensions and other post-retirement benefits provided to employees by the Company is accrued using actuarial techniques and assumptions, including an appropriate discount rate, during the employees' active years of service.

Future salary levels and cost escalation do not affect the amount of employee future benefits and therefore the accumulated benefit method has been used to determine the accrued benefit obligation.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Where, as of the beginning of the year, the unamortized net actuarial gain or loss exceeds ten percent of the greater of the benefit obligation and the fair value of the plan assets, the excess is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is ten years for each of 2006 and 2005.

(n) Hedging relationships and accounting for derivative financial instruments:

The Company uses derivative financial instruments for hedging purposes in the management of foreign currency and interest rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis to ensure the derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange exposure to foreign currency receipts and related receivables, primarily U.S. currency, is managed through the use of foreign exchange forward contracts and options.

Exposure to interest rates on long-term debt is managed through the use of interest rate swaps. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Foreign exchange adjustments accounted for under interest rate swap agreements are recognized in other foreign exchange gain (loss) on the statement of operations.

The Company has chosen to not designate its derivative forward foreign exchange contracts, options and interest rate swaps as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

1. **Significant accounting policies (continued):**

(o) Foreign currency translation:

The integrated subsidiaries of the Company translate monetary items to Canadian Dollars at exchange rates in effect at the balance sheet date and non-monetary items at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average rates for the period with the exception of depreciation, which is translated at historical exchange rates. Foreign exchange gains and losses are included in operating earnings or other foreign exchange gain (loss) in the statement of operations, depending upon what activity originated the balance.

Self-sustaining operations' assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Any material corresponding foreign exchange gains and losses are deferred and disclosed separately as a cumulative translation adjustment, a separate component of shareholders' equity.

Long-term obligations denominated in foreign currencies are designated as hedges of investments in self-sustaining operations. Accordingly, cumulative unrealized gains or losses arising from the translation of these obligations are recorded as cumulative translation adjustments.

(p) Net earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method.

(q) Asset retirement obligations:

Asset retirement obligations are recognized at the fair value in the period in which the legal obligation was incurred, with fair value of a liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

(r) Impairment of long-lived assets:

The Company determines if an impairment loss exists, by determining if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

(s) Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

2. **Softwood Lumber Agreement:**

On April 27, 2006 the federal governments of Canada and the United States reached a framework softwood lumber agreement ("SLA") to resolve the softwood lumber dispute. On October 12, 2006 the terms of the SLA were implemented and the U.S. Department of Commerce ("USDOC") revoked the antidumping and countervailing duty orders effective May 22, 2002 without the possibility of reinstatement. In addition, the USDOC instructed U.S. Customs and Border Protection ("CBP") to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The refund monies, and the associated interest up to October 12, are subject to a special charge of 18.06%, payable to the Canadian government.

The SLA has a term of seven years and provides for an extension of two years and for early termination by either government after two years. Canadian softwood lumber exporters will pay an export charge when the price of lumber is at or below US$355 per thousand board feet, as determined by the Random Lengths Framing Lumber Composite Price ("RLFLC"). The Province of British Columbia ("B.C.") has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). This choice is made separately for the B.C. Coast and B.C. Interior regions. The Province of B.C. has chosen Option A for both the B.C. Coast and the B.C. Interior. The Province of B.C. will have the opportunity to change options on January 1, 2010 and January 1, 2013. The Option A export charge effective for October through December 2006 was 15% as the prevailing RLFLC throughout that period was below US$315 per thousand board feet. The SLA passed a third reading of the legislation on December 6, 2006, and received Royal Ascent on December 15, 2006. Export charges are recorded as export taxes on the statement of operations.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

2. Softwood Lumber Agreement (continued):

In December 2006, the Company recorded and received the duty refunds and related interest of US$105,594,000 and US$13,341,000 respectively. The Company's associated special charge liability totaled CAD$24,396,000, and, together with other related duty costs, was netted against the related duty refund and interest income. The special charge liability was paid on January 31, 2007.

3. Acquisitions:

On May 31, 2005, the Company acquired the sawmill assets and inventory of Floragon Forest Products Molalla Inc. and Floragon Manufacturing LLC (together, "Floragon"), a sawmill in the U.S. Pacific Northwest, for US$55,363,000 (CAD$69,546,000). To acquire these assets, the Company paid $69,546,000, of which $31,405,000 was financed through the existing Revolving Line, $6,281,000 was financed through an operating line of credit with a U.S. bank, and the balance through cash on hand.

In late 2004, the majority shareholders of an investee company exercised their option under a shareholders' agreement to put their shares to the Company. Consequently, effective May 31, 2005, Interfor acquired the remaining 51% of the common shares of Mapri Developments Ltd. ("Mapri"), in which the Company previously held a 49% interest. The consideration paid for the acquisition totaled $10,359,000 and was funded through cash on hand.

These acquisitions have been accounted for using the purchase method and the purchase price is allocated as follows:

Net assets acquired:		
Cash	$	2,650
Other current assets		9,092
Property, plant and equipment		70,857
		82,599
Liabilities assumed:		
Current liabilities		664
Future income taxes		2,030
		2,694
	$	79,905
Cash consideration funded out of:		
Cash on hand	$	42,219
Operating Lines		6,281
Revolving Line		31,405
	$	79,905

4. Long-lived assets held for sale:

In 2006 the Company developed a formal plan to dispose of certain surplus logging equipment over the next year. As at December 31, 2006, the Company has classified these assets as assets held for sale.

5. Inventories:

		2006		2005
Logs	$	56,097	$	63,324
Lumber		19,782		29,998
Other		5,271		9,638
	$	81,150	$	102,960

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

6. Investments and other assets:

	2006	2005
Seaboard Shipping Company Limited	$ 7,438	$ 59,992
Other investments	2,656	2,378
Pension asset (note 18(b))	3,089	1,879
Deferred financing fee, net of accumulated amortization	177	377
	$ 13,360	$ 64,626

The Company is the holder of 60% of the outstanding common shares of Seaboard Shipping Company Limited ("Seaboard"). The remaining common shares are held by other British Columbia forestry companies. Seaboard operates ocean-going vessels that provide service to world ports with contractual commitments for lumber and plywood volumes, as well as other general cargo. Although the Company owns over 50% of the common shares of Seaboard, the shareholders have entered into agreements that limit the Company's ability to control Seaboard's strategic financing, investing and operating decisions. In addition, net earnings of Seaboard are distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership.

The Company accounts for its investment in Seaboard using the equity method as follows. The initial investment in Seaboard is recorded at cost and the investment is increased for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard. The Company's percentage of Seaboard's shipments was 63.9% in 2006 (2005 – 53.0%).

Summarized information of Seaboard is as follows:

	2006	2005
Total assets	$ 20,854	$ 28,900
Shareholders' equity	12,742	16,262
Net sales	55,195	72,164
Interfor's shipment percentage	63.9%	53.0%
Interfor's equity in earnings	$ 1,800	$ 6,690
Interfor's equity participation in gain on surplus assets sold	-	23,583
Distributions received (note 8)	54,354	6,293

On April 21, 2005, the Seaboard Limited Partnership ("the Seaboard Partnership"), made an advance to its partners, with the Company's share of the advance being $27,757,000. The Company signed an unsecured promissory note which was payable on demand on or before January 31, 2006. On December 29, 2005, the Seaboard Partnership provided a second advance to its partners, also payable on demand, with the Company's share of this advance being $26,597,000.

On January 3, 2006, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share of $54,354,000 was received by way of setoff against the advance and the promissory note payable to the Seaboard Partnership. In accordance with equity accounting, the income distribution was recorded as a reduction of the investment.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. **Property, plant and equipment:**

2006	Cost	Accumulated amortization	Net book value
Land	$ 14,720	$ -	$ 14,720
Buildings	76,544	40,326	36,218
Machinery and equipment	358,478	126,636	231,842
Automotive equipment	14,852	12,426	2,426
Other	47,870	23,332	24,538
	$ 512,464	$ 202,720	$ 309,744
2005			
Land	$ 21,158	$ -	$ 21,158
Buildings	88,332	51,700	36,632
Machinery and equipment	374,777	169,057	205,720
Automotive equipment	19,314	15,581	3,733
Other	51,001	29,017	21,984
	$ 554,582	$ 265,355	$ 289,227

8. **Timber and logging roads:**

2006	Cost	Accumulated amortization	Net book value
Timber	$ 59,343	$ 28,492	$ 30,851
Roads			16,746
			$ 47,597
2005			
Timber	$ 67,629	$ 34,456	$ 33,173
Roads			19,202
			$ 52,375

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

9. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

2006	Canadian Operating Facility	U.S. Operating Facility	Mapri Developments	Total
Available line of credit	$ 60,000	$ 17,481	$ -	$ 77,481
Maximum borrowing available	60,000	12,206	-	72,206
Unused portion of line	55,310	12,066	-	67,376
Outstanding letters of credit included in line utilization	4,690	140	-	4,830
2005				
Available line of credit	$ 75,000	$ 17,445	$ 4,000	$ 96,445
Maximum borrowing available	58,739	17,445	2,972	79,156
Unused portion of line	53,820	10,281	2,747	66,848
Outstanding letters of credit included in line utilization	4,306	186	-	4,492

The Company renewed its existing Canadian operating line of credit in 2006. The terms and conditions of the line remain unchanged, except for a reduction in the interest rate premiums, and a reduction in the maximum operating line of credit to $60,000,000 (2005 - $75,000,000). The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories. The loan bears interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line of credit is secured and is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. The line matures on April 26, 2007.

The Company renewed its existing U.S. operating line of credit in 2006. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific Inc ("IPI"). As at December 31, 2006, the maximum borrowing available was US$10,474,000 (2005 – US$15,000,000), of which US$10,354,000 (2005 – US$8,840,000) was unused. The line utilization includes outstanding letters of credit of US$120,000 (2005 – US$160,000). The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1¼%. The line of credit is secured by the accounts receivables and inventories of IPI and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The line matures on March 1, 2007.

On September 30, 2006, Mapri's revolving line of credit of $4,000,000 was cancelled in conjunction with the commencement of the wind-up of Mapri and the subsequent sale of the shares of B.W. Creative Wood Industries Ltd. ("BWC"), a wholly-owned subsidiary of Mapri (note 13).

(b) Long-term debt:

In 2006, the Company reduced the maximum borrowing available under its Canadian revolving term line (the "Revolving Line") to $40,000,000 from $90,000,000 and extended the maturity date to April 27, 2007. The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans.

On May 31, 2005, the Company drew US$25,000,000 on its Revolving Line in order to facilitate the acquisition of the sawmill assets of Floragon. In late December, 2005 a further US$15,000,000 was drawn, but by December 31, 2005, all amounts drawn under the Revolving Line had been fully repaid and the line remained unutilized throughout 2006.

The $US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US$35,000,000 (2005 - US$35,000,000) and was revalued at the year-end exchange rate to CAD$40,789,000 (2005 - CAD$40,705,000). The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans and matures on September 1, 2009.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

9. Bank indebtedness and long-term debt (continued):

(b) Long-term debt (continued):

Both lines are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

Minimum principal amounts due on long-term debt within the next five years are follows:

2007	$	-
2008		-
2009		40,789
2010		-
2011		-
	$	40,789

10. Other long-term liabilities:

		2006		2005
Road deactivation and environmental	$	2,894	$	3,070
Pension (note 18(e))		3,342		2,984
Long term incentive compensation		1,839		2,161
Other		527		331
	$	8,602	$	8,546

11. Reforestation liability:

The Company has an obligation to reforest timber harvested under various timber rights. The fair value of the liability for reforestation is determined as the obligation is incurred based on current production with reference to the present value of estimated future cash flows required to settle the obligation. Changes in the reforestation liability for the year ended December 31 are as follows:

		2006		2005
Reforestation liability, beginning of year	$	22,548	$	24,674
Reforestation expense on current production		4,754		4,459
Reforestation liability addition on acquisition of timberlands		770		-
Reforestation liability reduction on disposal of timberlands		(760)		-
Reforestation expenditures		(6,290)		(6,535)
Accretion expense		1,067		1,189
Changes in estimated future reforestation expenditures		(1,652)		(1,239)
	$	20,437	$	22,548
Consisting of:				
Current portion included in accounts payable and accrued liabilities	$	7,227	$	7,306
Long term reforestation liability		13,210		15,242
	$	20,437	$	22,548

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

11. Reforestation liability (continued):

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2006 is $23,400,000 (2005 - $25,975,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at the Company's credit-adjusted risk-free interest rate of 7.0%. Reforestation expense incurred on current production and accretion expense are included in production costs for the year. Changes in the estimated future reforestation expenditures for the current year included the reversal of $1,818,000 of the liability for reforestation obligations arising from regulatory and strategic changes to treatments for certain reforested areas (2005 - $1,146,000 reversal relating to forest tenure lost through the government's timber reallocation program (note 16(b)).

12. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2006 and 2005 consists of:

100,000,000 Class A subordinate voting shares without par value

1,700,000 Class B common shares without par value

5,000,000 preference shares without par value

Share transactions during 2006 and 2005 were as follows:

	Number			
	Class A	Class B	Total	Amount
Balance, December 31, 2004	47,619,816	1,015,779	48,635,595	$ 298,661
Shares issued on exercise of options	81,300	-	81,300	344
Share repurchases	(39,100)	-	(39,100)	(242)
Balance, December 31, 2005	47,662,016	1,015,779	48,677,795	298,763
Shares issued on exercise of options	149,580	-	149,580	676
Share repurchases	(691,700)	-	(691,700)	(4,273)
Balance, December 31, 2006	47,119,896	1,015,779	48,135,675	$ 295,166

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

On November 9, 2005, the Company commenced a normal course issuer bid ("NCIB 04") to acquire up to 2,384,000 Class A shares. NCIB 04 terminated on November 8, 2006. On November 9, 2006, the Company commenced a normal course issuer bid ("NCIB 05") to acquire up to 2,366,000 Class A shares (representing approximately 5% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding shares being purchased in any 30-day period. During 2006 the Company acquired 691,700 Class A shares (2005 – 39,100) at a total cost of $4,739,000 (2005 - $257,000) and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled $466,000 (2005 - $15,000) and has been charged to contributed surplus in the year ended December 31, 2006. NCIB 05 will terminate no later than November 8, 2007.

At December 31, 2006, Class A shares are reserved for possible future issuance as follows:

(i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and

(ii) 2,356,620 Class A shares are reserved for possible issuance pursuant to the share option plan.

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2006 are exercisable at prices ranging from $3.65 to $9.00 per share, the closing market price for the shares on the dates that the options were granted. The options expire at various dates between July 30, 2007 and April 30, 2011.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 40

12. Share capital (continued):

(b) Share option plan (continued):

Details of the Company's share option plan for the years ended December 31, 2006 and 2005 are as follows:

	2006		2005	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,783,500	$ 4.62	1,874,800	$ 4.60
Granted	-	-	-	-
Exercised	(149,580)	4.52	(81,300)	4.23
Expired or cancelled	-	-	(10,000)	3.86
Outstanding, end of year	1,633,920	$ 4.63	1,783,500	$ 4.62
Options exercisable, year end	1,633,920	$ 4.63	1,624,680	$ 4.68

Details of options outstanding under the share option plan at December 31, 2006 are as follows:

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding, December 31 2006	Weighted average remaining option life (yrs)	Weighted average exercise price	Number exercisable, December 31 2006	Weighted average exercise price
$9.00	43,400	0.6	$ 9.00	43,400	$ 9.00
$3.65-$5.00	1,590,520	3.2	4.51	1,590,520	4.51
	1,633,920		$ 4.63	1,633,920	$ 4.63

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash.

	2006		2005	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,155,420	$ 5.50	1,224,100	$ 5.24
Granted	102,500	6.95	223,500	7.07
Exercised	(55,800)	4.96	(75,520)	4.80
Expired or cancelled	(39,420)	6.55	(216,660)	5.92
Outstanding, end of year	1,162,700	$ 5.62	1,155,420	$ 5.50
Units exercisable, year end	599,760	$ 5.05	419,440	$ 4.90

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

12. Share capital (continued):

(c) Share Appreciation Rights Plan (continued):

Details of units outstanding under the SAR Plan at December 31, 2006 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2006	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2006	Weighted average strike price
$4.33	500,320	5.1	$ 4.33	386,520	$ 4.33
$6.07-$7.30	662,380	7.2	6.59	213,240	6.35
	1,162,700		$ 5.62	599,760	$ 5.05

The Company recorded compensation expense of $142,000 (2005 - $533,000) for the year ended December 31, 2006. Accrued compensation payable on unexercised units totaled $1,781,000 (2005 - $1,775,000) at December 31, 2006.

(d) Total Shareholder Return Plan:

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount.

The Company recorded compensation expense of $235,000 (2005 - $1,766,000) for the year ended December 31, 2006. At December 31, 2006, accrued compensation payable in respect of the TSR Plan totaled $393,000 (2005 - $1,798,000).

(e) Deferred Share Unit Plan:

In January 2004, the Company introduced a Deferred Share Unit ("DSU") Plan for Directors and senior officers of the Company. The Plan, which allows for immediate vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSU's either increase or decrease in value in a direct relationship with the Company's Class "A" Subordinate Voting shares. Participants in the TSR Plan may elect to receive their award in DSU's at the end of any performance period. DSU's may also be granted directly to Directors or senior employees of the Company at the discretion of the Board. In February 2006 a total of 28,000 DSU's (2005 – 28,000) were granted to Directors under the plan at an average value of $7.02 (2004 - $7.31) per unit. In addition, effective December 31, 2006, two senior executive officers of the Company elected to receive a portion of their award under the TSR Plan in DSU's. As a result, the Company issued an additional 30,255 (2005 - 211,100) DSU's at an average value of $7.18 (2005 - $7.12). The Company recorded compensation expense of $218,000 (2005 - $210,000) for the year ended December 31, 2006 in respect of the DSU Plan. At December 31, 2006, the Company had 313,355 (2005 – 261,100) DSU's outstanding. Subsequent changes to share values will result in adjustments to compensation expense.

13. Other income:

	2006	2005
Gain on disposal of investments, surplus property, plant and equipment	$ 21,377	$ 11,639
Gain on settlement of timber takeback	-	6,373
Equity participation in gain on surplus assets sold by Seaboard	-	23,583
Other, net	(1,214)	-
	$ 20,163	$ 41,595

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

13. Other income (continued):

In 2006, the Company sold the inventories, property, plant and equipment of its Mackenzie Sawmill and Helifor Industries Limited ("Helifor") and the shares of BWC. The sale of these three operating business units generated sales proceeds of $19,255,000 and a gain of $2,476,000. In addition, the Company disposed of all property, and plant and equipment of Saltair Timber Products Ltd. ("Saltair") and its Marysville Sawmill division in Marysville, Washington, and surplus equipment of Field Sawmill division on Vancouver Island, B.C. The sales of assets of these non-core operations, combined with sales of surplus logging and other assets, generated cash proceeds of $13,625,000 and a gain of $7,199,000.

In addition, the Company also completed the sale of several surplus properties, including the properties at its former Empire site in Squamish, B.C. and its former Fraser Mill site in Coquitlam, B.C. Sales proceeds of surplus property totaled $17,507,000 and generated a gain of $11,702,000.

In 2005, the Company completed the sales of several surplus assets, including the former location of its Squamish Lumber mill in Squamish, British Columbia, its interest in the Tree Farm Licence 38, located northwest of Squamish, and the final two phases of four phases of the Sawyer's Landing property in Pitt Meadows (former location of its Bay Lumber mill). The Company recorded sale proceeds of $26,959,000 and a net gain of $11,639,000 on disposal of surplus assets.

In 2005, under the terms of the Forest Revitalization Act, the Company received $23,260,000 in compensation for the loss of logging and subcontractor harvesting rights on the B.C. Coast, including $18,760,000 related to the 20% reduction in harvest volumes and a $4,500,000 advance payment against lost infrastructure and road construction costs. $2,449,000 was recorded as a recovery of production costs and $20,811,000 was recorded as proceeds on the disposal of timber and roads and resulted in a net gain on settlement of timber takeback of $6,373,000.

On April 21, 2005, Seaboard sold its 50% interest in Western Stevedoring Limited. In December 2005, Seaboard sold its interest in its vessel, the MV Skauboard. The Company's share of the after-tax gain on the sale of these surplus assets totals $23,583,000.

14. Restructuring costs and write-downs of property, plant, equipment and timber:

The Company recorded restructuring costs, and write-downs of plant, equipment and timber consisting of the following:

	2006	2005
Property, plant, equipment and timber write-downs	$ 5,868	$ 34,026
Severance and other restructuring costs, net of recoveries	1,709	7,668
	$ 7,577	$ 41,694

In 2006, the Company continued its extensive evaluation of its operations, and identified certain B.C. coastal assets which it did not consider to be part of its future core operations. After a review of the valuation of these non-core assets, an impairment charge of $5,868,000 (2005 - $31,756,000) was recorded to reduce the carrying values of these assets to estimated fair values. In 2005, the Company recorded an additional impairment charge of $2,270,000, resulting from the re-evaluation of the carrying value of its remaining timber after the timber takeback.

The Company continued its programs to improve its competitive cost structure, resulting in severance charges of $3,396,000 in 2006. In 2005, the Company also recorded severance and other costs of $15,621,000 for workers displaced by reductions in harvesting rights taken under the *Forestry Revitalization Act* (British Columbia). Severance costs in 2006 were partially offset by the receipt of $1,687,000 (2005 - $5,742,000) from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia. The Company continues to pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any additional mitigation is not yet determinable and will be recorded when received.

In 2005, the Company also recorded a recovery of $2,211,000 substantially comprised of forestry liabilities previously expensed to restructuring.

As at December 31, 2006, $2,402,000 (2005 - $5,497,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2007 in accordance with its restructuring plans.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 43

15. Income taxes:

Future income taxes are determined as follows:

	2006	2005
Future income tax assets:		
Losses carried forward	$ 15,537	$ 19,133
Reforestation, restructuring and other accruals deductible when paid	11,080	14,525
Alternative minimum tax credits	238	870
	26,855	34,528
Valuation allowance	-	-
	26,855	34,528
Future income tax liabilities:		
Property, plant and equipment	(32,735)	(26,770)
Other	(648)	(570)
	$ (6,528)	$ 7,188
Current future income tax assets	$ 4,179	$ 6,659
Current future income tax liabilities	(364)	(351)
Non-current future income tax assets	445	3,980
Non-current future income tax liabilities	(10,788)	(3,100)
	$ (6,528)	$ 7,188

The reconciliation of income taxes at the statutory rate to the income tax expense (recovery) is as follows:

	2006	2005
Income tax expense (recovery) at the statutory rate of 34.12% (2005 – 34.87%)	$ 46,995	$ 4,361
Non-taxable income of investments accounted for by the equity method	(770)	(10,677)
Large corporations tax	(332)	800
Non-taxable portion of capital gains	(1,485)	(1,788)
Other	(2,208)	86
	$ 42,200	$ (7,218)

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately $42,200,000 (2005 - $55,600,000) expire between 2008 and 2026, and are available to reduce future taxable income. The Company has $238,000 (2005 - $870,000) of Alternative Minimum Tax Credits arising from its U.S. operations which have an indefinite carry-forward.

16. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2007	$ 11,800
2008	5,500
2009	5,200
2010	3,500
2011	2,300

16. Commitments and contingencies (continued):

(b) B.C. Forest Revitalization Plan:

In March 2003, the Government of B.C. ("the Crown") introduced the Forestry Revitalization Plan ("the Plan") that provided for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan included: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, were required to return 20% of their replaceable tenure and timber licences to the Crown. The Plan stated that approximately half of this volume would be redistributed to open opportunities for woodlots, community forests, and First Nations, and the other half would be available for public auction under the Timber Sales Program. The Crown acknowledged that licensees would be fairly compensated for the return of tenure and related infrastructure costs.

In December 2004, the Crown issued Ministerial Orders to the Company specifying the timing and the volume of the take-back for replaceable tenures. Approximately 344,000 cubic metres of the Company's existing allowable annual cut ("AAC.") on their replaceable tenures was taken in December 2004, and the balance of 235,000 cubic metres was taken in December 2005, for a total of 579,000 cubic metres. In addition, 20% of the Company's non-replaceable timber licences were reduced.

On March 28, 2005 the Company concluded a comprehensive agreement with the Province of British Columbia to compensate the Company for loss of forest tenure through the government's timber reallocation program. The Company received $22,111,000 in compensation for the loss of logging rights on the B.C. Coast, including $17,611,000 related to the 20% reduction in harvest volumes and a $4,500,000 advance payment against lost infrastructure and road construction costs. On December 15, 2005, the Company concluded a second agreement in relation to compensation from the B.C. Forestry Revitalization Trust as consideration for the loss of subcontractor harvesting rights on the B.C. Coast in the amount of $1,149,000.

The Company is continuing its negotiation with the Crown for further compensation for infrastructure, but the amount and timing of additional compensation is not yet determinable. The Company will record any compensation at the time the amounts to be recorded can be estimated.

(c) Central and North Coast Land Use Decisions:

On February 7, 2006, the Crown announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The decisions are the outcome of negotiations over several years between the Crown, First Nations, the forest industry, environmental groups, local governments and many other stakeholders.

The land use decisions protect vast areas of temperate rain forest, while providing a unique framework for the forest industry called Ecosystem Based Management ("EBM"). These agreements set the stage for a collaborative model to fully implement EBM in these areas by 2009. The combined Central Coast and North Coast Land and Resource Management Plan areas are approximately 6,400,000 hectares. The total combined protected areas for these regions are approximately 1,800,000 hectares.

On September 29, 2006, the Chief Forester of the Crown announced temporary reductions in the allowable annual cut in the plan areas by 572,000 cubic metres. The Company's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

The amount and timing of any compensation payable to Interfor as a result of AAC reductions is not yet determinable.

The Company will record any compensation at the time the amounts to be recorded can be estimated.

(d) Surety Performance Bonds

The Company has obtained $6,300,000 in surety performance bonds, with an expiry date ranging March 2007 through May 2009.

(e) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

17. Net earnings per share:

Net earnings per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2006			2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	$ 95,534	48,482	$ 1.97	$ 19,725	48,680	$ 0.41
Share options	-	583	-	-	602	-
Diluted earnings per share	$ 95,534	49,065	$ 1.95	$ 19,725	49,282	$ 0.40

18. Pension plans:

In Canada, the Company maintains pension benefit plans which include a defined contribution plan that is available to all salaried employees and a defined benefit plan that is available to all hourly employees not covered by a union pension plan. The defined benefit plan provides a pension based on years of service. In addition, the Company contributes to an industry-wide benefit plan for unionized employees. In the U.S., the Company maintains a defined contribution plan that is available to all employees.

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Company to its funded pension plans, cash contributed to its defined contribution plans, cash contributed to its multiemployer defined benefit plan and cash contributed to the senior management supplemental plans was $7,497,000 (2005 - $8,648,000).

(a) Defined contribution plan for Canada:

For the defined contribution plan, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings on the contributions. For the defined contribution plan, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2006, the pension expense for this plan is equal to the Company's contribution of $1,470,000 (2005 - $1,673,000).

(b) Defined benefit plan:

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2003, and the next required funding valuation will be as of December 31, 2006.

	2006	2005
Accrued benefit obligation:		
Beginning of year	$ 17,026	$ 14,349
Service cost	759	640
Interest cost on accrued benefit obligation	963	919
Benefit payments	(545)	(571)
Experience loss on change of discount rate	-	1,689
End of year	18,203	17,026
Plan assets:		
Fair value, beginning of year	16,127	13,207
Expected return on plan assets	1,175	970
Employer contributions	1,565	1,585
Employee contributions	300	275
Benefit payments	(545)	(571)
Actuarial gain (loss)	989	661
Fair value, end of year	19,611	16,127
Funded status – plan surplus (deficit)	1,408	(899)
Unamortized actuarial loss	1,681	2,778
Accrued benefit asset	$ 3,089	$ 1,879

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts) 46

18. Pension plans (continued):

(b) Defined benefit plan (continued):

Plan assets consist of:

Asset category	2006	2005
	Percentage of plan assets	
Equity securities	63%	62%
Debt securities	34%	32%
Other	3%	6%
Total	100%	100%

The accrued benefit asset is included in the Company's balance sheet under Investments and other assets (note 6).

The Company's net expense for the Company's defined benefit pension plan is as follows:

	2006	2005
Current service cost	$ 459	$ 365
Interest cost	963	919
Expected return on plan assets	(1,175)	(970)
Amortization of experience losses	108	35
	$ 355	$ 349

Actuarial assumptions used in accounting for the Company maintained benefit plans are:

	2006	2005
Accrued benefit obligation as of December 31		
Discount rate	5.5%	5.5%
Compensation increases	Not applicable	Not applicable
Pension expense		
Discount rate	5.5%	6.25%
Expected return on plan assets	7.0%	7.0%
Compensation increases	Not applicable	Not applicable

(c) Unionized employees' pension plan:

The Company and its subsidiaries contribute to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2006, the pension expense for these plans is equal to the Company's contribution of $3,215,000 (2005 - $4,489,000).

(d) Defined contribution plan for U.S.:

IPI, the Company's U.S. operating subsidiary, established a 401K Plan, with contributions based on a discretionary profit sharing allocation. Contributions to the employee's account vest in years two through six of employment at a rate of 20% per annum. During 2006, the Company made cash contributions of $304,000 (2005 - $297,000) and expensed (recovered) a further ($16,000) (2005 - $328,000).

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

18. Pension plans (continued):

(d) Defined contribution plan for U.S. (continued):

In July, 2005, the Company introduced a second component to the plan, whereby the Company's contributions match employee contributions which are based on a percentage of the employee's earnings. For the defined contribution plan, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. Effective August 14, 2006, The Company eliminated the vesting requirement on employer matching contributions. This change was made retroactively to July 1, 2005. Total matching contributions totaled $561,000 in 2006 (2005 - $239,000).

Effective July 2005, Cedarprime Inc., also adopted the 401K Plan and made matching contributions of $43,000 (2005 - $20,000).

(e) Senior management supplementary pension plan:

The Company has agreed to provide supplementary pension benefits to certain members of its senior management in the form of a notional extension of the defined contribution plan. These commitments are not funded but are fully accrued by the Company, with some of the commitments being secured by irrevocable letters of credit.

The Company also maintains defined benefit plans for a retired senior manager. The accrued benefit obligation is $1,650,000, of which $642,000 is funded. The remaining unfunded liability is fully accrued.

The amounts accrued are as follows:

	2006	2005
Accrual for defined contribution commitments	$ 2,826	$ 2,306
Accrual for defined benefit commitments	1,008	1,042

19. Related party transactions:

Lumber sales to an affiliate of a significant shareholder amounted to $2,940,000 (2005 - $4,012,000). Shipping services provided by Seaboard Shipping Company Limited totaled $8,853,000 (2005 - $11,848,000). These transactions were conducted on a normal commercial basis, including terms and prices.

20. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada and the Pacific Northwest, U.S.A.

The Company sells to both foreign and domestic markets as follows:

	2006	2005
Canada	$ 263,648	$ 237,029
United States	424,253	455,660
Japan	67,104	75,026
Other export	69,434	74,868
	$ 824,439	$ 842,583

Sales by product line are as follows:

	2006	2005
Lumber	$ 625,552	$ 661,483
Logs	103,250	105,107
Wood chips and other by products	41,868	34,118
Other	53,769	41,875
	$ 824,439	$ 842,583

(Tabular amounts expressed in thousands of Canadian dollars, except number of shares and per share amounts)

20. Segmented information (continued):

Capital assets, goodwill and other intangibles by geographic location are as follows:

	2006	2005
Canada	$ 210,387	$ 214,211
United States	161,301	143,085
	$ 371,688	$ 357,296

21. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2006, the fair value of the Company's long-term debt approximated its carrying value of $40,789,000 (2005 - $40,705,000) as the majority of the long-term debt bore interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at December 31, 2006, the Company has outstanding obligations to sell a maximum of US$16,500,000 at an average rate of CAD$1.1578 and Japanese ¥445,000,000 at an average rate of ¥101.70 to the CAD$1.00 during 2007. All foreign currency gains or losses to December 31, 2006 have been recognized in the statement of operations.

During September 2005, the Company entered into a cross currency interest rate swap. The Company swapped US$20,000,000 denominated debt at an exchange rate of 1.1765 (CAD$23,530,000). The Company will pay 5.84%, including a spread of 200 basis points, on the Canadian dollar equivalent and receive 90 day LIBOR plus a spread of 200 basis points on the US$20,000,000. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009. All gains or losses on the swap have been recognized in the statement of operations.

(c) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables were collected, they were replaced by new receivables to maintain the aggregate outstanding balance. In 2006, the Company renewed this program and extended its termination date to March 31, 2007. On July 17, 2006, the Company reduced securitized receivables to nil (2005 - $25,000,000) resulting in a corresponding increase in accounts receivable. On December 15, 2006, the Company terminated its agreement.

22. Subsequent event:

On January 2, 2007, the Seaboard Partnership declared an income distribution to its partners. The Company's share was $4,369,000 and, in accordance with equity accounting, was recorded as a reduction of its investment.

INTERFOR

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of February 8, 2007

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(INTERFOR)

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of February 8, 2007

DESCRIPTION OF THE BUSINESS

We are one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world. We have operations in British Columbia, Washington and Oregon, including three sawmills in the Coastal region of B.C., one in the B.C. Interior, one in Washington and two in Oregon. We also operate value-added remanufacturing and specialty products facilities in B.C. and Washington.

Our Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963. On December 1, 1979 we amalgamated with our subsidiary, Whonnock Forest Products Limited. On January 1, 1988 we changed our name from Whonnock Industries Limited to International Forest Products Limited. On February 10, 2006 we transitioned under the *Business Corporations Act* (British Columbia). Our head office as well as our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company", "Interfor", "we" or "our" means International Forest Products Limited and its predecessors and all our subsidiaries. Our major subsidiary, Interfor Pacific Inc., owns and operates our U.S. sawmills. It is wholly owned and is incorporated in the State of Washington. Other wholly owned subsidiaries whose operations are described below are CEDARPRIME Inc. (incorporated in the State of Washington), and Interfor Japan Ltd. (incorporated in British Columbia).

HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometers east of Vancouver B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources from other companies.

In 2004 we substantially increased our sales revenues and reduced our unit production costs in both manufacturing and logging. This resulted in increased profitability despite the negative impact of a stronger Canadian dollar and the restructuring costs and write-downs of plant and equipment associated with the closure of the Squamish sawmill. In September 2004, our newly formed subsidiary, Interfor Pacific Inc., acquired three sawmills in the U.S. Pacific Northwest increasing our annual lumber capacity by 310 million board feet and improving the geographic diversity of the our sawmill operations. In November 2004, a \$25.8 million rebuild of the Queensboro sawmill (formerly Western Whitewood) was begun.

Early in 2005, the price of structural lumber products began to rebound in the North American market and the Canadian dollar weakened slightly to provide an improvement in economic conditions in the first quarter of the year. However, as the year continued, lumber prices weakened and the Canadian dollar strengthened providing more difficult economic conditions, particularly for the Canadian mills. The Queensboro mill started up in April 2005 but was curtailed in late November for two months while adjustments were made to certain equipment and operating plans. On May 31, 2005 our U.S. subsidiary acquired a large sawmill in Molalla, Oregon providing an attractive expansion opportunity while reducing our exposure to duties and currency fluctuations.

In May 2006 structural lumber prices in the North American market began a sharp decline and, in early October 2006, the Random Lengths Framing Lumber Composite Price reached its lowest level since January 2001. On April 27, 2006 the federal governments of Canada and the United States reached a framework softwood lumber agreement ("SLA") to resolve the softwood lumber dispute. On October 12, 2006 the terms of the SLA were implemented and the U.S. Department of Commerce revoked the antidumping and countervailing duty orders effective May 22, 2002 and instructed U.S. Customs and Border Protection to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The Company received total refunds of countervailing and antidumping duties and related interest of US\$118.9 million, before the deduction of a special charge of 18.06% of this amount which was paid to the Canadian federal government on January 31, 2007. At December 31, 2006, the majority of the cash refund was invested in short-term interest bearing

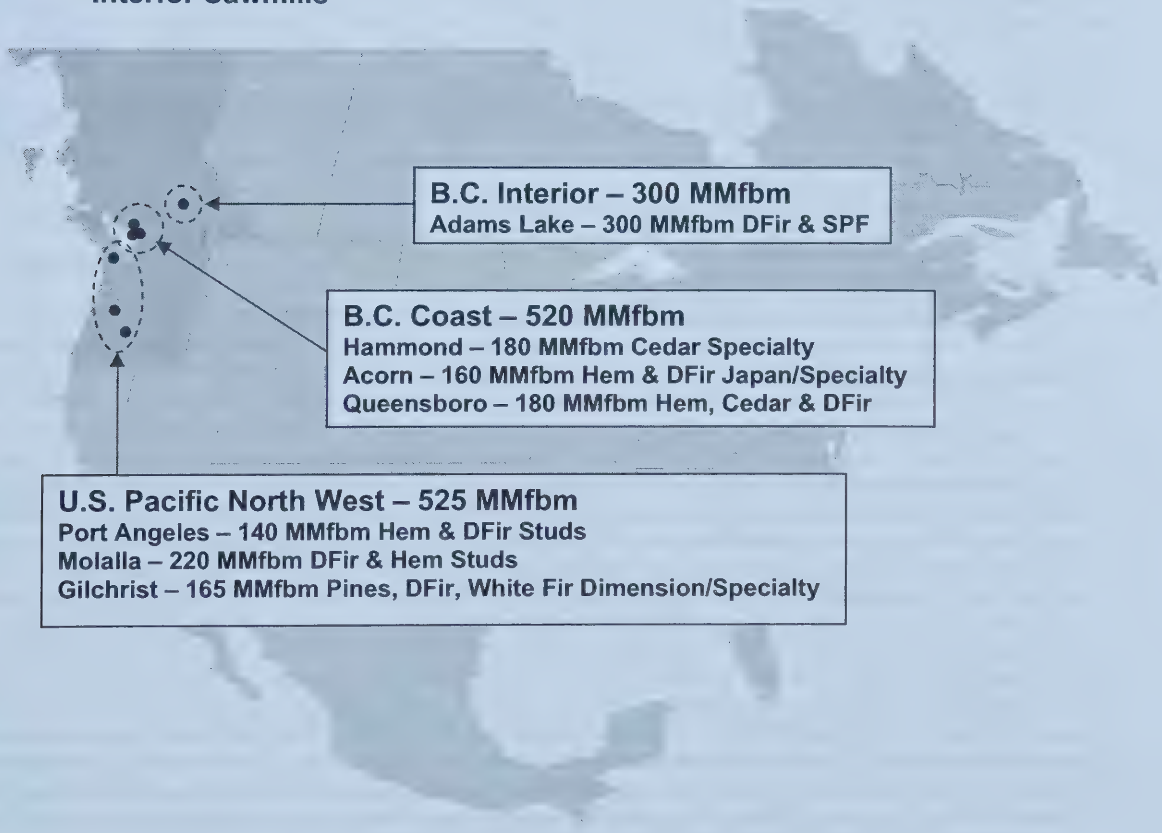
securities, primarily denominated in U.S. dollars, with maturities of three months or less. During 2006 we disposed of numerous non-core assets including the Marysville and MacKenzie sawmills, B.W. Creative Wood Industries Ltd., our helicopter logging operation, non-core timber tenures, surplus land and other surplus logging and manufacturing assets. Total proceeds generated from these sales were $49.2 million. We also completed the contracting out or closure of all remaining Company owned logging operations. During 2006 we increased capital spending with major infrastructure and high-return projects at the Adams Lake, Port Angeles and Molalla sawmills.

In 2007, we expect to continue to optimize core assets with a significant capital program, and look for further expansion opportunities. See Management Discussion and Analysis for the year ended December 31, 2006, a copy of which is available from SEDAR at www.sedar.com.

MANUFACTURING

We operate seven sawmills and two remanufacturing plants in B.C., Washington and Oregon. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

- **Interfor Sawmills**



The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In addition to improving our manufacturing capability through upgrades, we have increased our efficiency and geographic diversity and expanded our capacity through recent additions of sawmills in Washington and Oregon. These acquisitions also enabled us to expand our business while closing several sawmills for which upgrades would not have represented a viable investment.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Normal Number of Shifts (per day)	Present Rated Capacity (1)	2006	2005	2004	2003	2002
			Years ended December 31 (millions of board feet)				
B.C. Coast							
Hammond (2)	2	180	158	175	192	145	153
Acorn	2	160	154	162	180	143	182
Queensboro (3)	2	180	111	53	82	33	71
B.C. Interior							
Adams Lake (4)	3	300	286	273	219	163	160
U.S. Pacific Northwest							
Gilchrist (5)	2	165	136	160	53	—	—
Molalla (6)	2	220	194	136			
Port Angeles (5)	2	140	96	123	41	—	—
Sawmills Closed or Sold							
MacKenzie (7)			43	57	47	42	47
Field (8)			—	—	94	101	107
Marysville (5)(9)			—	22	9	—	—
Squamish (10)			—	—	—	17	63
Total		1,345	1,178	1,161	917	644	783

(1) Based on the normal number of shifts per day and 250 operating days (Molalla 300 days) per year.
(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond management amounting to 16 million board feet in 2006.
(3) Queensboro (formerly Western Whitewood) underwent a major rebuild in 2005.
(4) Capacity based on 10 hour shifts.
(5) Gilchrist, Marysville and Port Angeles were acquired on September 1, 2004.
(6) Molalla was acquired on May 31, 2005. Capacity based on operating two 10 hour shifts 6 days per week.
(7) Volumes include custom-cutting.
(8) Field was permanently closed in February 2006.
(9) Marysville was permanently closed in December 2005.
(10) Squamish was curtailed in April 2003 and permanently closed in October 2004.

B.C. Coast Operations

Hammond

Hammond is a western red cedar manufacturing facility located on the Fraser River at Maple Ridge, B.C. The facility consists of a three-line sawmill, a planer mill and dry kilns. During 1998 and 2001, five new dry kilns were constructed at a total cost of $8 million. In 2002, we completed a $5 million capital project that reduced costs and increased product value by optimizing trimming and improving the mill flow. In order to complement the mill's product lines, Hammond directs some of its log supply to third-party facilities for custom-cutting under the direction of Hammond's management. The majority of Hammond's production is directed to North American markets.

Acorn

The Acorn operation is located on leased land in Delta, B.C. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. In 2001, capital projects totaling $13.5 million were completed upgrading the mill's log processing, lumber sorting and optimized trimming capability. Also in 2001, to better meet customer needs, four dry kilns utilizing advanced vacuum-drying technology were constructed at a cost of $4.5 million. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

Queensboro

Queensboro (formerly Western Whitewood) is located on the north arm of the Fraser River in New Westminster, B.C. It is a high-capacity, small-log sawmill designed to manufacture lumber for North American and overseas markets. In November 2004, we began a $25.8 million rebuild of the mill including state-of-the-art optimization and breakdown equipment, new dry kilns and an upgrade of the planer facilities. The rebuild was completed on schedule in April 2005. The start-up occurred during difficult market conditions and was suspended in November 2005 for two months while adjustments were made to certain equipment and to the operating plan for the mill. During the start-up phase we deferred $5.0 million in start-up costs. The operation has recently completed several successful product trials and is currently operating on 1 shift.

Interior Operations

Adams Lake

Adams Lake is our Interior sawmill located near Kamloops, B.C. The mill manufactures kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets. Adams Lake Lumber has the capability to cut Douglas-fir as well as spruce-pine-fir, western red cedar, and hemlock. In 2000, we completed a $4.5 million upgrade to improve the range of products that could be offered to our customers. The upgrade included the ability to produce machine stress rated products, increase the capacity and quality of kiln-drying and other projects which improved product optimization and reduced costs. In 2001, we completed a $2.7 million project to install an optimized edger. In 2003, a planer and sorter were installed at a cost of $6.8 million and an additional dry kiln was constructed at a cost of $1.0 million. In 2006 we spent $23.4 million on an energy system, new hog and barker and infrastructure improvements to facilitate further growth and cost savings. We anticipate spending a further $8.1 million in 2007 to complete these projects. Capital and non-capital improvements have more than doubled the production levels at the mill since 2001.

U.S. Operations

Gilchrist

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. The previous owner invested approximately US$28 million in 2000 and 2001 to modernize the facility to efficiently convert small diameter logs. The mill primarily processes spruce-pine-fir and ponderosa pine to produce dimension lumber and a wide range of other products. The mill has an on-site cogeneration plant to produce electricity for its own use or for sale as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill. In 2005 and 2006 we installed six new dry kilns at a cost of US$5.7 million to replace obsolete kilns and increase drying capacity. The installation is expected to improve product quality and increase sales value as well as allow for increased sawmill production. The installation of a US$1.5 million planer grade optimizer to improve both grade and volume recovery was completed in 2006.

Port Angeles

The Port Angeles mill was newly constructed in 1998 at a total cost of US$30 million. It is situated in Port Angeles, Washington on a 64 acre site near major highways and waterways which are convenient for shipping lumber and chips as well as for receiving logs at the mill. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export. In 2005, we modified the dry kilns at a cost of US$1.1 million to increase drying capacity. We also installed a new planer grade optimizer, trimmer and sorter at a cost of US$5.0 million to increase planer capacity and significantly reduce planing costs. In 2006, we commenced a project to replace the sawing line at a cost of US$17.9 million to increase recovery and lumber production. The new line is currently in start-up mode.

Molalla

The Molalla mill was acquired in May 2005. It is located in Molalla, Oregon approximately 30 miles southeast of Portland. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market. The mill's machine centres are fully optimized following an investment of more than US$10 million by the previous owners. A number of infrastructure improvements were undertaken in 2005 and 2006 at a cost of US$5.8 million. In 2006, we also completed the construction of two dry kilns for US$2.4 million and a new planer mill complex with grade optimization for US$10.3 million. The new planer mill is expected to reduce costs and increase grade realizations.

REMANUFACTURING

Most of our sawmills have some capability to process lumber beyond the primary stage. In order to increase sales margins, we have been adding value to our lumber products through increased remanufacturing activities at our own facilities described below, and by custom remanufacturing lumber in facilities owned by independent remanufacturers.

CEDARPRIME

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. The plant has a siding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 20 million board feet of finger-jointed and cut-stock products primarily for the U.S. market. Some of the products are sold under the brand name CEDARPRIME®.

Albion

The Albion facility operates on leased lands located 7 kilometres from the Hammond sawmill. The plant processes high value finished cedar siding and paneling products. The facility includes a moulder, a resaw, five chop-saws and sorting equipment which enable the plant to process 8 million board feet of kiln-dried specialty products per year.

SALES, MARKETING AND COMPETITIVE POSITION

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number may be, in certain product lines, lower cost producers than Interfor.

The following table shows our lumber sales by geographic area and total sales by product line for the past five years:

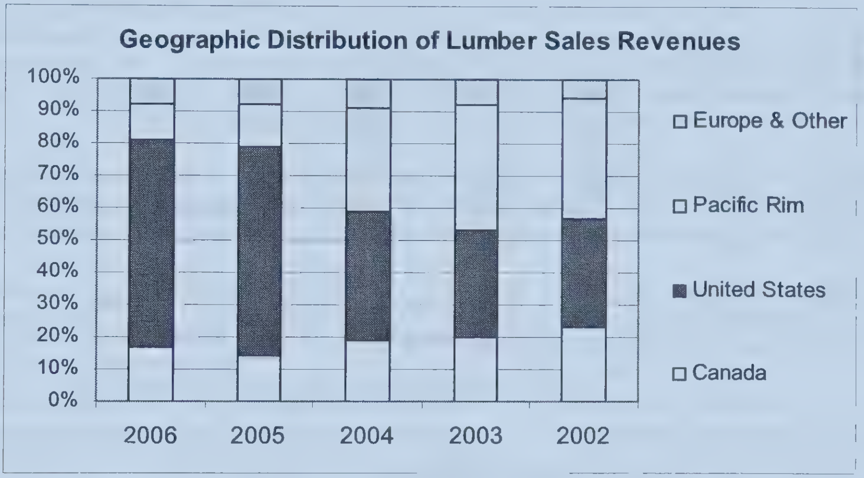
	Years ended December 31				
	2006	2005	2004	2003	2002
	(thousands of dollars)				
Lumber					
— Canada	$ 102,996	$ 88,621	$106,537	$ 82,305	$128,159
— U.S.A	393,222	427,334	263,313	172,971	218,987
— Other export	114,937	128,109	234,909	203,790	242,830
	611,155	644,064	604,759	459,066	589,976
Offshore transportation and handling	14,397	17,419	29,106	27,338	31,453
Logs	103,250	105,107	136,921	92,181	139,129
Wood chips and other by-products	41,868	34,118	38,351	28,499	31,041
Contract services and other	53,769	41,875	34,700	33,882	24,734
Total sales	$824,439	$842,583	$843,837	$640,966	$816,333

Lumber Sales

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodeling market in North America has become a significant consumer of lumber and has lessened the impact of fluctuations in new housing starts. In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and maintain product diversification. Each of the mills has a particular customer and product base in various countries, providing us with a diversified sales profile. Product and market diversification is particularly important for B.C. Coast producers where the variability inherent in the log resource produces a much wider spectrum of product sizes and quality than is the case in the B.C. Interior or U.S. Pacific Northwest. A continuing priority for us is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber Sales and Marketing activities are organized into Western Red Cedar, North American Dimension Lumber and Export Whitewood Groups. Our Tokyo-based subsidiary, Interfor Japan Ltd., has developed niche markets and has increased sales directly to end users. We also have offices in France and China. The major market for our cedar lumber continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, Japan, Asia and Australia. North American dimension and stud lumber produced in Canada and the U.S. is sold out of our office in Bellingham, Washington to leverage our U.S. expertise and to provide a more diverse customer base for the Canadian mills in terms of geographic and market sectors.

The following graph shows the percentage of lumber sales revenue to our major markets in the past five years:



Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade, and species of log to suit market conditions and each mill's cutting preferences. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chip and Sawmill Residuals Sales

In B.C., we have the capacity to produce approximately 290,000 volumetric units of wood chips per year in our coastal sawmill operations and approximately 130,000 bone dry units of wood chips at Adams Lake. In 2006, the B.C. sawmills operated below capacity primarily because of production curtailments in response to weak North American structural lumber markets and log shortages in our Cedar business. This reduced coastal chip shipments to approximately 234,000 volumetric units for the year. Essentially all of the wood chips produced in B.C. are sold under contracts to pulp producers with terms varying from 1 to 25 years, with some contracts perpetually renewable by the pulp producer. Most of these wood chips are sold at prices related to current Northern Bleached Softwood Kraft (NBSK) pulp prices, while the balance is sold at current market prices for chips.

In Washington and Oregon, we have the capacity to produce approximately 200,000 bone dry units of chips in our sawmill operations. In 2006, approximately 172,000 bone dry units were produced. Chips from these operations are sold to pulp producers or fibre board manufacturers under short-term arrangements.

DISTRIBUTION

We use various modes of surface transportation to deliver our lumber products. We have a 60% interest in Seaboard Shipping Company Limited and arrange substantially all of our offshore transportation through them. Shipments of lumber within North America are made by truck and rail. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, we own a short line railroad to connect to a mainline for shipping lumber and chips.

TIMBER SUPPLY

British Columbia

The Province of British Columbia owns about 95% of the timberlands from which the majority of timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest landowners.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for management obligations and a fee payable to the Crown (referred to as stumpage).

Our timber supply needs are met by a combination of: internal logs harvested from our own timber tenures; long-term trade and supply agreements; and by purchases on the open market. When operating at normal capacity, our Coastal mills obtain approximately one-half of their log supply from external sources. Interfor's Interior mill requires approximately three quarters of its log supply from external sources.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an allowable annual cut ("AAC") of approximately of 2.6 million cubic metres (m^3). The majority of Interfor's tenures are long-term renewable agreements that are generally replaced every five years.

In 2006, we traded or disposed of various non-core tenures on the B.C. Coast to streamline our woodland operations. We traded Forest Licence volume in the Sunshine Timber Supply Area ("TSA") and sold our remaining portion of TFL 10 and the FL's we had in the Soo TSA.

The B.C. Government is responsible for making land use decisions that designate areas for primary uses such as parks or resource development. Most of the Province has completed comprehensive land use plans that involve an extensive public consultation process. On February 7, 2006, the Government of B.C. ("Crown") announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The land use decisions protect vast areas of temperate rain forest, and a commitment to Ecosystem Based Management ("EBM"). The purpose of EBM is to adopt a set of practices that will ensure the well being of ecosystems, people and their communities. The combined area of the Central Coast and North Coast Land and Resource Management Plans is approximately 6.4 million hectares. The total combined protected areas for these regions are approximately 1.8 million hectares. On September 29, 2006 the Chief Forester of the Crown announced temporary reductions in the allowable annual cut ("AAC") in the plan areas by 572,000 cubic metres. Interfor's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years to account for anticipated reductions for areas set aside during the planning process, and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure once a permanent removal of AAC for the new protected areas has been made in accordance with the Forest Act. The amount and timing of any compensation as a result of these reductions is not yet determinable. The Company will record any compensation at the time the amounts to be received can be confidently estimated. Further harvest reductions or adjustments may occur in future years with full implementation of new EBM practices for operating areas targeted for 2009. The harvest impact from EBM is not known at this time.

On the Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the Interior, the species mix consists of spruce, pine, fir (SPF), Douglas-fir and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-third of the harvest currently comes from second growth stands, this amount is expected to increase significantly over the next several decades.

The following table shows our AAC under our Forest and Tree Farm Licences and other cutting rights and the volume of timber harvested under our Forest and Timber Licences and other cutting rights in each region for the periods specified. They also show the volume of purchases and sales during that period.

B.C. Operations	Years ended December 31					
	2007	2006	2005	2004	2003	2002
	(thousands of cubic metres)					
Allowable Annual Cut [1]						
— Forest Licences	2,105	2,325	2,293	2,603	2,603	2,782
— Non Replaceable Forest Licences	155	155				
— Tree Farm Licences	262	272	517	551	551	563
— Discretionary Annual Harvest Levels [2]	40	65	80	80	80	80
— Less Provision for Harvest Take-back [3]	—	—	(235)	(579)	—	—
	2,562	2,817	2,655	2,655	3,234	3,425
Log Production						
— Coast		2,082	2,210	2,697	1,686	2,638
— Interior		299	348	267	279	273
Total Log Production		2,381	2,558	2,964	1,965	2,911
Log Purchases		1,487	1,595	1,880	1,557	2,035
Log Sales		1,190	1,360	1,636	1,142	1,395

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).
(2) Volumes not included in Allowable Annual Cut.
(3) AAC take-back under the Forestry Revitalization Plan was completed during 2005.

U.S. Pacific Northwest

Timber supply in the U.S. Pacific Northwest (PNW) is derived from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. About 70% of the log supply in the PNW comes from land that is owned by forest companies and small private landowners.

Our timber supply needs in Washington are primarily met by purchases from local forest industry private lands as well as small, individual private landowners. In Oregon, the mills are supplied by a combination of Federal and State land timber sales and forest industry private land purchases.

In Washington, our log purchases are primarily western hemlock and some Douglas-fir that come from local second growth forests.

In Oregon, log purchases for the Gilchrist mill consist primarily of lodgepole and ponderosa pine that have come from second growth harvesting and the thinning of young stands from surrounding National Forests. The Molalla mill purchases western hemlock and Douglas-fir logs primarily from nearby private industrial suppliers.

The total log supply requirement for the mills in the U.S. is projected to be approximately 210 million board feet in 2007. The proportion of timber derived from various sources is estimated to be as follows:

U.S. Pacific Northwest Operations	Expected Sources of Timber 2007
State and Federal Lands	28%
Industrial Lands	63
Private Lands	9
	100%

Forestry and Logging in B.C.

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's *Forest and Range Practices Act* and the *Forest Act*. The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

Our Company is required to manage forest resources under our tenures in accordance with the requirements of Government laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We pay stumpage to the Province for timber harvested on Crown land according to pricing systems in place on the Coast and in the Interior. In 2006, we paid $11.7 million in stumpage to the Province for the harvest of 2.4 million m^3 of Crown timber.

Our Coastal logging operations are widely dispersed in primarily remote locations between Vancouver and Prince Rupert. Our woodlands harvesting activities are performed entirely by independent logging contractors. In 2006 we completed the process of transferring all of our remaining harvesting activities to independent contractors including the helicopter logging activities previously conducted by our wholly owned subsidiary, Helifor Industries Limited. Helicopter logging has normally accounted for approximately 30% of our Coastal harvest.

Our Interior woodlands operation is located at Adams Lake, northeast of Kamloops where harvesting activities are also performed by independent contractors.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. These and other factors are described in the Selected Quarterly Information section of the Management Discussion and Analysis for the year ended December 31, 2006, a copy of which is available on SEDAR at www.sedar.com.

CAPITAL EXPENDITURES

Our acquisitions and capital expenditures on sawmill and logging operations and timber holdings are as shown in the following table:

	Years ended December 31				
	2006	2005	2004	2003	2002
	(thousands of dollars)				
Acquisitions					
Land, buildings, equipment					
— Manufacturing	—	$70,857	$74,979	—	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	—	—
	—	$70,857	$74,979	—	—
Other capital expenditures					
Land, buildings, equipment					
— Manufacturing and other	$71,176	$57,404	$26,615	$21,940	$14,801
— Forestry and logging	733	1,323	2,075	1,335	2,266
Logging roads and timber	18,694	20,136	28,940	16,625	24,028
	90,603	78,863	57,630	39,900	41,095
Total	**$90,603**	**$149,720**	**$132,609**	**$39,900**	**$41,095**

Our capital expenditures during the five years ended December 31, 2006 were financed through internally generated funds, through our bank lines and through proceeds generated from the sale of surplus land and other non-core and surplus logging and manufacturing assets.

HUMAN RESOURCES

In B.C., we directly employ approximately 1,100 people in our logging and manufacturing operations and corporate offices. The United Steel Workers of America ("Steel Workers") is the certified bargaining agent for approximately 600 of these people. The labour agreement with the Steel Workers was renewed during 2004 and expires on June 14, 2007. There were no shifts lost due to labour disputes in our sawmill or logging operations in 2006.

In the U.S., we employ approximately 400 employees in our sawmill and remanufacturing operations in Washington and Oregon and in our office located in Bellingham, Washington.

Our employees are governed by a Policy Manual, including a Code of Conduct, Environment Policy, Health and Safety Policy, Disclosure Policy, Whistleblower Policy, Financial Reporting Policy, Internet, Email and Computer Use Policy, Harassment Policy and Smoking, Drug and Alcohol Policy. The Code of Conduct may be found on SEDAR at www.sedar.com. The Environment and Safety Policies are described below under the next two headings. Employees are also protected by a Privacy Policy. Our employees, management and directors have adopted the following Core Values:

Core Values

We will conduct ourselves with honesty, integrity and professionalism.

- **People:** People are the foundation of our business.
- **Safety:** Safety is a prerequisite for work.
- **Environment:** Environmental integrity must be maintained in everything we do.
- **Customers:** Customers pay our way.
- **Shareholders:** Returns to our shareholders facilitate investment, employment, and public benefits.

We Are Responsible For Our Own Success.

HEALTH AND SAFETY

We maintain a Health and Safety Policy that demonstrates our commitment to the health, safety and well-being of all employees.

Our Board of Directors approved the policy and established a committee of the Board to monitor these safety commitments. The Environment and Safety Committee of the Board is mandated to monitor the implementation and maintenance of our policy of ongoing commitment to health and safety values and principles with continuous operational improvement. The Committee ensures that our management develops, implements and maintains a comprehensive safety program.

Safety is a core value for us. We maintain an active and comprehensive safety program at each of our operations. In 2003 we formed safety task groups in both woodlands and manufacturing to increase the emphasis on safety. During 2006 significant gains were made in improving our contractors' safety programs in preparation for SAFE Company certification which we will require in 2007 for all of our primary contractors. In manufacturing operations, the focus was on a rigorous audit process and core safety leadership training. We continue to be a top safety performer in the B.C. woodlands and sawmill manufacturing sectors, as reported by the Forest Industry Advisory Service (FIAS). The Coastal Woodlands Safety Task Group provides direction and substance for improving performance. It develops the understanding of, and the commitment to, safety values and beliefs. Each of our manufacturing facilities has a comprehensive safety program overseen by our senior management.

Following a comprehensive executive review of the safety programs in the Company and a renewed commitment to safety following a number of fatalities in 2005 Province-wide in B.C., 2006 resulted in a dramatic improvement in safety results including no fatalities in our operations.

Health And Safety Policy

Health and Safety is the uncompromised right and responsibility of all employees.

- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations.

International Forest Products Limited is committed to the health, safety, and well being of all employees.

THE ENVIRONMENT

We maintain an Environmental Policy that demonstrates our commitment to responsible stewardship of the environment.

Our Board of Directors approved the policy and established a committee of the Board to monitor our commitment to principles, values and policies on environment matters.

Management has implemented an environmental compliance program. External and internal audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

All of our woodlands operations have been independently certified to internationally recognized standards. Certification systems provide independent verification that environment and sustainable forestry standards are being met.

Our woodlands have been certified to the Sustainable Forestry Initiative® Program (SFI) as an international standard for certification of forest land. The SFI program is a comprehensive system of principles, objectives and performance measures that combine the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality.

We maintain an Environmental Management System (EMS) for all of our manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Each manufacturing business unit is responsible for compliance and ensuring the EMS is functioning as intended.

We monitor environmental performance at our mill sites and conduct audits to identify issues and assess compliance. All of our mills have received a high rating for environmental compliance.

We have also received Chain-of-Custody (CoC) certification that tracks certified logs coming from sustainable forests through the manufacturing process. All of our Canadian mills were approved for SFI "on product" label use. In addition, certain mills have also obtained Smartwood, Forest Stewardship Council and KPMG Performance Registrar CoC certifications.

We believe that we are a global leader in environmental management through the application of science–based principles, collaborative approaches, sustainable forest practices and independent certifications. We were a recipient of the 2000 Millennium Business Award from the United Nations Environmental Programme and the International Chamber of Commerce.

Additional information about our environmental work, audit summaries and Forest Sustainability Report is available on our website at www.interfor.com.

Environment Policy

We are committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

RESEARCH AND DEVELOPMENT

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques, and anti-sapstain applications. We also are committed to applied research and development in the areas of environment, health and safety, forest management and product and market development. We also conduct product and market research on our own in Canada and the U.S.

RISK FACTORS

Certain information contained in this Annual Information Form is forward looking in nature and reflect management's current view of future events. Other information is historical but may result in expectations for future outcomes or circumstances. Interfor's operations and operating results are affected by various external and internal factors such as changes in product pricing and lumber export taxes, availability of log supply, currency exchange rates, interest rates, forest policy and stumpage rates. These and other risk factors are described in the Management Discussion and Analysis for the year ended December 31, 2006, a copy of which is available on SEDAR at www.sedar.com.

SHARE CAPITAL

Our authorized share capital consists of 100,000,000 class "A" Subordinate Voting shares without par value ("Subordinate Voting Shares"), 1,700,000 class "B" Multiple Voting shares without par value ("Multiple Voting Shares") and 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof. The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Subordinate Voting Shares and Multiple Voting Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board of Directors and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board of Directors except in certain circumstances where the holders of Preference shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference shares.

Multiple Voting Shares

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes on a poll for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board of Directors except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two directors to be elected by the holders of Preference shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

Rights on Take-Over Bids and Conversion of Multiple Voting Shares

Any transfer of a Multiple Voting Share:

(a) by any of W.L. Sauder, members of his immediate family, their descendants and holding companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Convertible Preference Shares, and Multiple Voting Shares at an equivalent price; or

(b) by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the share into a Subordinate Voting Share.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

(a) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or

(b) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own Equity Shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding Equity Shares, or (ii) the issue of Equity Shares by way of a stock dividend other than an ordinary course stock dividend.

Preference Shares

The Preference shares of each series rank on a parity with the Preference shares of every other series, and are entitled to preference over the Subordinate Voting Shares and the Multiple Voting Shares and over any other shares ranking junior to the Preference shares, with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

TRANSFER AGENT

Our transfer agent is Computershare Investor Services Inc. at their Vancouver and Toronto locations.

DIVIDENDS

Under our credit facilities, we are permitted to pay cash dividends and certain other payments provided that they meet our banking covenants. However, we have not paid cash dividends since 1981 and currently have no plans to pay dividends while we pursue high pay-back capital projects and expansion opportunities.

STOCK EXCHANGE LISTING AND TRADING SUMMARY

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A.

The trading volumes and price ranges for each month of 2006 and the first month of 2007 are as follows:

	Highest Share Price	Lowest Share Price	Volume Traded
January 2006	7.47	6.89	716,699
February 2006	7.10	6.76	704,521
March 2006	7.75	6.70	1,591,206
April 2006	8.11	7.20	2,796,783
May 2006	7.81	7.10	1,241,584
June 2006	7.30	6.01	1,320,558
July 2006	6.95	6.22	697,340
August 2006	7.60	6.55	718,169
September 2006	7.19	6.35	416,264
October 2006	6.59	5.91	508,748
November 2006	7.25	6.30	1,060,853
December 2006	7.45	6.86	466,012
January 2007	7.50	6.70	1,240,981

DIRECTORS AND OFFICERS

As of February 8, 2007, our directors and officers, (19 persons) beneficially owned or exercised control over 2.8% of the Subordinate Voting Shares and 99.6% of the Multiple Voting Shares.

The term of office for each director expires on the date of the next annual general meeting on April 26, 2007.

Directors	Principal Occupations in the Past Five Years	Director Since	Municipality of Residence
LAWRENCE I. BELL (b)(c)	Chairman and previously Chairman & C.E.O. of B.C. Hydro and Power Authority (Electricity generation and distribution); previously President and Chief Executive Officer of Shato Holding Ltd. (Food processing and services; real estate management and development)	Apr. 29, 1998	Vernon, B.C., Canada
DUNCAN K. DAVIES	President and Chief Executive Officer of the Company	Nov. 24, 1998	Vancouver, B.C., Canada
ROBERT E. KADLEC (b)(c)(d)	Chairman & C.E.O. of Bentley Capital Corp. (Venture capital)	Oct. 18, 1994	West Vancouver, B.C., Canada.
HAROLD C. KALKE (a)(c)	President of Kalico Developments Ltd. (Real estate development and management)	July 18, 2000	West Vancouver, B.C., Canada
CLAUDE C. LAVAL, III (a)(d)	Chairman and previously President of Claude Laval Corporation (Manufacturer of filtration equipment)	Apr. 28, 1994	Fresno, Calif., U.S.A.
PETER M. LYNCH	Executive Vice President and Director of Grant Forest Products Inc. (Manufacturer of oriented strand board)	Oct. 26, 2006	Toronto, Ont., Canada
GORDON. H. MacDOUGALL	Vice President and Director of Connor, Clark & Lunn Investment Management Ltd.	Feb. 8 2007	West Vancouver, B.C., Canada
J. EDDIE McMILLAN	Business Consultant; previously Executive Vice President – Wood Products Group of Willamette Industries, Inc. (Forest products)	Oct. 26, 2006	Perdido Key, Fla., U.S.A.
JOHN A. MILROY (a)(b)(d)	Business Consultant	Mar. 23, 1978	Vancouver, B.C., Canada
E. LAWRENCE SAUDER (c)	Chairman of the Board of Hardwoods Distribution Income Fund; and Vice Chairman and previously President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 18, 1984	Vancouver, B.C., Canada
WILLIAM L. SAUDER (c)	Chairman of the Company	Jul. 27, 1977	Vancouver, B.C., Canada
JOHN P. SULLIVAN (a)(b)(d)	Retired; previously Vice President of the Company; previously Vice President Corporate Development of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C., Canada

(a) Member of the Audit Committee
(b) Member of the Corporate Governance Committee
(c) Member of the Management Resources and Compensation Committee
(d) Member of the Environment and Safety Committee

Officers	Principal Occupations in the Past Five Years	Municipality of Residence
WILLIAM L. SAUDER	Chairman of the Company	Vancouver, B.C., Canada
DUNCAN K. DAVIES	President and Chief Executive Officer of the Company	Vancouver, B.C., Canada
JOHN A. HORNING	Senior Vice President and Chief Financial Officer; previously Vice President Finance and Corporate Development; Vice President of the Company	West Vancouver, B.C., Canada
SANDY M. FULTON	Senior Vice President and Chief Operating Officer; previously Senior Vice President, U.S. Operations; Management Consultant to the forest and financial services industries; Executive Vice President Operations of Crown Pacific Limited Partnership (Forest Products)	Blaine, Washington, U.S.A.
OTTO F. SCHULTE	Vice President, Coastal Woodlands; previously General Manager, Campbell River Operations of the Company	Black Creek, B.C., Canada
RICHARD J. SLACO	Vice President and Chief Forester; previously Chief Forester of the Company	Delta, B.C., Canada
STEPHEN D.A. WILLIAMS	Vice President and Corporate Treasurer; previously Corporate Treasurer of the Company	North Vancouver, B.C., Canada
CHRISTOPHER LEMON	General Counsel and Corporate Secretary; previously Corporate Counsel of the Company; Associate Counsel and Assistant Secretary of Weldwood of Canada Limited	North Vancouver, B.C., Canada
ALAN R. NICHOLL	Corporate Controller; previously Director, Finance of Catalyst Paper Corporation	West Vancouver, B.C., Canada

To our knowledge, only one of our directors and officers has, in the last ten years, been an officer or director of a company that, while that person was acting in that capacity, was subject to bankruptcy or similar proceedings or securities regulatory sanctions as described in *National Instrument 51-102 Continuous Disclosure Obligations*. Lawrence Bell was previously a director of Pegasus Gold Inc. which on January 16, 1998, voluntarily filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code.

Interest of Management and Others in Material Transactions

No director, officer of Interfor nor any person or company that is the direct or indirect beneficial owner or who exercises control or direction over more than 10% of any class or series of the Company's outstanding voting securities, nor any associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the last 3 financial years or during the 2006 financial year that has materially affected or will materially affect the Company.

AUDIT COMMITTEE

Composition of the Audit Committee

The Audit Committee consists of four members, all of whom meet the requirements of *Multilateral Instrument 52-110 – Audit Committees* regarding financial literacy and have been determined by the Board to be independent.

Mr. Harold Kalke is the Chairman of the Committee. He is a businessman with extensive experience in real estate development and in the oil and gas sector. He is currently the President of Kalico Developments Ltd, a real estate development and management company. He has a Bachelor of Science degree in engineering and a Masters in Business Administration from the University of Western Ontario.

Mr. John Milroy is a Chartered Accountant with experience as a business consultant and investment advisor. He has also been the Chief Executive Officer of a manufacturer of sawmill equipment and Vice President of Finance or Chief Financial Officer of two public companies.

Mr. Claude Laval III is the Chairman and founder of the Claude Laval Corp., a worldwide manufacturer of liquid and solids filtration equipment and systems. He has a degree in Public Administration from Stanford University and he has been the Chief Executive Officer of two publicly traded U.S. companies.

Mr. John Sullivan retired in 2003 from his position as a Vice President of the Company. He joined Interfor following the acquisition of Primex Forest Products Ltd., where he was Vice President, Corporate Development. He served in various management capacities during his 30 years with Primex. He also served on the Board of Primex, as well as Air Canada and several private companies.

Audit Committee Terms of Reference

Purpose

The Audit Committee (the "Committee") under powers delegated to it by the Board of Directors (the "Board") is mandated to review annual and quarterly financial statements and certain other legally required financial documents before they are approved by the Board, meet with shareholders' auditors independently of Management, review the nature and scope of the annual audit, and review the adequacy of internal control procedures and systems.

Composition and Term of Office

The Committee shall consist of four or more directors. All members of the Committee shall be independent within the meaning of *Multilateral Instrument 52-110 - Audit Committees*. All members should be financially literate and at least one member should have accounting or related expertise. The Chairman of the Committee along with other members shall be appointed annually by the Board following the Annual General Meeting to hold office until the next Annual General Meeting unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled or any additional member may be appointed at any time by the Board to hold office until the next Annual General Meeting. A quorum shall consist of a simple majority of the members of the Committee.

Duties and Responsibilities

Except as specifically authorized by the Board, the Committee shall perform the following functions:

1. Schedule regular meetings. Extraordinary meetings may be called by any member of the Committee or at the request of the Chairman of the Board.
2. Appoint a Secretary to the Committee who shall record the proceedings of the meetings.
3. Report to the Board the activity and recommendations, if any, requiring Board approval.
4. Examine and review the annual and quarterly financial statements and/or any Prospectus of the Company and recommend approval by the Board. This review will involve discussions with the Company's Auditor including an opportunity for an in-camera meeting.
5. Review the annual and quarterly Management Discussion and Analysis report to the shareholders and earnings press releases prior to their dissemination, and recommend approval by the Board.

6. Review matters related to internal controls of the Company. Ensure that the necessary measures are taken to follow up suggestions resulting from auditors' reports.
7. Review the principal financial risks of the Company and ensure that an effective strategy to manage these risks is in place.
8. Review the derivatives policies and activities including details of exposures to banks and other counterparties.
9. Recommend the appointment of the Company's Auditor and negotiate the terms of reference and compensation for the audit.
10. Approve all non-financial audit services provided to the Company by the Company's Auditor prior to the service being provided.
11. Oversee the activities of the Auditor who reports directly to the Committee.
12. Review procedures used by management to ensure the integrity of all public disclosures.
13. Review the policies and procedures for handling concerns expressed about the Company's accounting, internal controls and audit procedures including concerns expressed confidentially by employees.
14. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor of the Company.

The Committee is authorized to engage any outside advisor it deems necessary to enable it to carry out its duties and responsibilities and arrange payment of the advisor's compensation by the Company.

Provision of Services by the Company's External Auditor

The Audit Committee recommends the appointment of the External Auditor and approves the annual audit plan and compensation of the External Auditor for all audit, audit related and non-audit services. In the case of non-audit services, the service and compensation is approved by the Committee before the service commences.

The following summarizes the professional services rendered by KPMG LLP to the Company for the years ended December 31, 2006 and 2005:

	2006 Fees	2005 Fees
Audit and audit-related fees:		
Audit of the consolidated financial statements	$ 387,500	$ 366,075
Quarterly reviews	90,000	73,000
Audit-related fees (1)	51,500	105,900
Total audit and audit-related fees	529,000	544,975
Tax fees (2)	160,992	100,469
All other fees - forestry certification audits	65,980	80,800
- internal control over financial reporting advisory fees	145,000	98,800
- due diligence advisory fees	12,800	15,000
Total fees:	$ 913,772	$ 840,044

(1) Audit-related fees for the current year consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan, subsidiary companies, and advice and assistance related to accounting issues.

(2) Tax fees for the current year consist of fees for tax compliance services, professional services related to U.S. cross border transfer pricing and sales tax.

INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants, is the auditor who prepared the auditors' report that accompanies the Company's financial statements for the year ended December 31, 2006. To our knowledge, as of January 31, 2007, none of the partners of KPMG LLP beneficially owns, directly or indirectly, any of the outstanding shares or other property of the Company or any of its associates or affiliates.

ADDITIONAL INFORMATION

Additional information relating to Interfor may be found on SEDAR at www.sedar.com including the following:

a. Additional financial information is provided in our financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006.

b. Additional information including corporate governance practices, directors' and officers' remuneration, principal holders of our securities and securities authorized for issuance under equity compensation plans is contained in our Information Circular.

GLOSSARY

"Adjusted EBITDA" EBITDA less U.S. duty refunds, net and Other income.

"Allowable Annual cut (AAC)" The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

"Bone Dry Unit (BDU)" A unit of measurement for wood chips and other sawmill by-products, being equal to 2,400 pounds.

"**Cash flow from operations**" Cash generated from operations before considering changes in operating working capital.

"**Clear fibre**" Refers to knot and defect-free fibre found in higher-grade sawlogs; in lumber form, this fibre commands a premium price.

"**Custom cutting**" An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

"**EBITDA**" Earnings before interest, income taxes, depletion, amortization, restructuring costs and write-downs of property, plant, equipment and timber.

"**Forest Licence**" Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

"**Hectare**" A metric unit of area measurement, equal to 2.47 acres.

"**m^3**" A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

"**Mfbm**" One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

"Pre-tax return on total assets" Earnings (loss) before taxes, restructuring costs and write-downs of property, plant, equipment and timber, U.S. duty refunds, net and Other income divided by closing total assets.

"**Return on average invested capital**" Net earnings (loss) plus after tax interest cost (excluding interest income on U.S. duty refund, net of special charge) divided by the average of opening and closing invested capital (the total of bank indebtedness, short-term advances from the Seaboard partnership, long-term debt and shareholders' equity).

"**Return on average shareholders' equity**" Net earnings (loss) divided by the average of opening and closing shareholders' equity.

"**Silviculture**" The art and science of controlling the establishment, growth, composition, health and quality of forests.

"**Stumpage**" A charge assessed by the provincial government on all Crown timber harvested.

"Sustained yield (sustainable log supply)" The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

"**Timber Licence**" Non-replaceable, area based, Crown timber cutting rights.

"**Tree Farm Licence**" A renewable 25-year licence to manage forest area to yield an annual harvest on a sustainable basis.

"**Value-added product**" A commodity or other product that has been further processed to increase financial value.

"**Volumetric unit**" A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet. A volumetric unit represents between 60% and 85% of the chips in a Bone Dry Unit, depending on the species.

"**Whitewood**" Includes the Coastal species Hemlock, Balsam Fir, Douglas Fir and Spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

HEAD OFFICE AND REGISTERED OFFICE

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OFFICERS

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Chairman

D.K. Davies
President and Chief Executive Officer

J.A. Horning
Senior Vice President and
Chief Financial Officer

S. M. Fulton
Senior Vice President and Chief Operating Officer

S.D. Williams
Vice President and Corporate Treasurer

C. Lemon
General Counsel and Corporate Secretary

A. Nicholl
Corporate Controller

O.F. Schulte
Vice President, Coastal Woodlands

R.J. Slaco
Vice President and Chief Forester

AUDITORS

KPMG LLP Vancouver, BC

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, BC and Toronto, ON

STOCK EXCHANGE

Class "A" shares listed on
The Toronto Stock Exchange
Symbol: IFP.A

DIRECTORS

L.I. Bell
Vernon, BC

D.K. Davies
Vancouver, BC

R.E. Kadlec
West Vancouver, BC

H.C. Kalke
West Vancouver, BC

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P. Lynch
Toronto, Ontario

G. H. MacDougall
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J. E. McMillan
Perdido Key, Florida

J.A. Milroy
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